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**ECONOMIC AFFAIRS**

**No. 130**



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**CHINA REPORT  
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**CONTENTS****PEOPLE'S REPUBLIC OF CHINA****NATIONAL POLICY AND ISSUES**

Articles Discuss Theoretical Questions, Results in Economy (RENMIN RIBAO, 2 Mar 81) .....	1
--	---

Overall Economic Balance, by Song Zexing Importance of Economic Results, by Zhou Shulian	
---	--

'JINGJI YANJIU' On Marketing Under Socialism (Yang Jiangai; JINGJI YANJIU [ECONOMIC RESEARCH], 20 Jan 81) .....	11
---	----

Links Between the Four Modernizations, Environmental Protection Analyzed (Ma Shijun, et al; GUANGMING RIBAO, 20 Feb 81) .....	25
---	----

**ECONOMIC PLANNING**

Pros and Cons of Bureaus Serving as Profit-Sharing Units (Chen Lingshu; JINGJI GUANLI [ECONOMIC MANAGEMENT], No 1, 1981) .....	38
--	----

**INDUSTRY**

Experiences of Responsibility for Profits, Loss Reviewed (Tao Youzhi, Huang Laiji; JINGJI GUANLI [ECONOMIC MANAGEMENT], No 1, 1981) .....	42
---	----

**CONSTRUCTION**

'JINGJI GUANLI' On Capital Construction Policy (Li Mengbai, Lin Senmu; JINGJI GUANLI [ECONOMIC MANAGEMENT], 15 Feb 81) .....	50
--	----

**DOMESTIC TRADE**

Mainland-Taiwan Trade Reportedly Flourishing  
(SHIJIE JINGJI DAOBAO, 19 Jan 81) ..... 58

**LABOR AND WAGES**

Increased Job Opportunities for Youths in Heilongjiang  
(HEILONGJIANG RIBAO, 25 Jan 81) ..... 59

## NATIONAL POLICY AND ISSUES

### ARTICLES DISCUSS THEORETICAL QUESTIONS, RESULTS IN ECONOMY

#### Overall Economic Balance

Beijing RENMIN RIBAO in Chinese 2 Mar 81 p 5

[Article by Song Zexing [1345 0463 5887]: "Theoretical Questions on Properly Striking an Overall Balance in National Economy"]

[Text] Overall balance means all-round macrobalance in the national economy. It requires that the total social demand and its various important parts balance with the total social production and its various important parts, and that the balance between value and material objects be equal. Acting according to one's capability and keeping expenditures within the limits of income is the basic principle underlying overall balance. The object of striking an overall balance is to insure the most proportionate and coordinated development of the entire national economy in line with the purpose of socialist production and to realize the best rate of growth and the best macroeconomic results. Excessive capital construction investments will undoubtedly cause the total social demand to exceed the total social production, cause a shortage in production resources and strained relations between supply and demand for consumer goods, and lead to imbalances between various branches of the national economy. At such a juncture, in order to insure an overall balance, it will be necessary to control the total social demand and adjust the production structure. The production structure may be divided into three categories: production of original products, production of intermediate products, and production of ultimate products. When arranging the total social demand and production of intermediate and ultimate products, it is imperative to consider the fundamental condition, that is, the availability of resources for the original products.

Implementation of the readjustment policy is, in the final analysis, aimed at insuring an overall balance in the national economy, thereby creating conditions for proportionate, efficient development of the national economy. The following are my personal views on several theoretical questions to be approached in order to strike an overall balance in the national economy.

#### The Basic Principle and Requirement for Overall Balance in the National Economy

An overall balance is an all-round, macrobalance in the national economy and is related to partial (departmental, regional), microbalance. It demands that the

total social demand and its various important parts (for instance, investment and consumption) balance with the total social production and its important parts (for instance, production of capital goods and consumer goods). Overall balance is based on individual balance or partial balance, while individual or partial balance must be in keeping with the requirement for comprehensive overall balance. The balance between the total social demand and the total social production is mainly a balance of value, while the balance between various parts of total social demand and various corresponding parts of total social production presupposes balance between the material objects. Therefore, overall balance demands that balance of value dovetails with balance of material objects and that the total social demand be suited to the possibility of supplying social resources. During the planning period, the extent of social demand can be arranged only according to the amount of resources that can be utilized through efforts. Acting according to one's capability and keeping expenditures within the limits of resources is the basic principle underlying overall balance.

But overall balance does not mean balance for balance's sake. An overall balance is struck for the purpose of realizing one objective, that is, insuring the most proportionate and coordinated development of the entire national economy in line with the purpose of socialist production. By the most proportionate we mean proportions that can insure the best rate of growth; and the best rate of growth is not the rapid speed generally referred to, but the rate that can insure the best macroeconomic results of combining the people's immediate interests with their long-term interests. That is to say, through an overall balance the limited resources are utilized efficiently, the maximum economic results are achieved at the cost of minimum labor within the framework of the national economy, and the constantly growing material and cultural needs of the people are met more satisfactorily. For this reason, an overall balance should be insured to achieve the above objective even under normal circumstances of harmonious proportions among the main branches of the national economy. When the proportionate relations in the national economy are dislocated, it is all the more necessary to take resolute means to strike an overall balance. It is for the purpose of gradually achieving an overall balance and a coordinated development of the national economy, and then constantly making improvements and realizing the best proportions, the best rate and the best macroeconomic result through restructuring of the systems, that readjustment is now the primary focus of planning work.

#### Where To Begin in Striking An Overall Balance?

How to strike a proper overall balance? It goes without saying that we should begin by analyzing the scale and structure of total social demand and total social production in a particular period of the past, thereby bringing to light the factors of imbalance in the national economy, the weak links in the production structure, the production potentials that can be tapped, the material and cultural needs of the masses that must be satisfied immediately, the scale of investments and the necessary enlargement of reproduction, and the possibilities of supplying the production resources required to meet these needs. To strike an overall balance means estimating--on the basis of analyzing the past and discerning the present situation and on the principle of acting according to one's capability and keeping expenditures within the limits of resources--the level of

anticipated national income and the supply of resources during the planning period, and on this basis rationally adjusting the proportions of investment and consumption and the scale and structure of the two in such a way that the material and cultural needs of the people can be gradually improved, the capacity for enlarging reproduction can be gradually increased, and the best macroeconomic results can be achieved. To achieve this, it will be necessary to strike a balance repeatedly from two standpoints: On the one hand, the scale of production resources needed (including material and financial resources, and manpower in general and material resources in particular) must be estimated on the basis of the investment and consumption stipulated in the plans. On the other hand, the possibilities of supplying various production resources as well as the weak links in the chain of supply must be estimated on the basis of the measures for adjusting the production structure and for increasing production and practicing economy. If the possibilities of supplying various production resources are unable to satisfy the need for production resources, it will be necessary to exercise control over or curtail the total social demand and readjust the scale and structure of investment and consumption. At the same time, it will be necessary to improve or strengthen the weak links in the chain of resources supply as much as possible until the two are in line with each other. In drawing up plans it will be necessary to strike an overall balance repeatedly from these two standpoints; even in the process of carrying out plans it will be necessary to pay constant attention to changes in the conditions and make proper adjustments from these two standpoints and keep striking an overall balance.

#### Control Over Total Social Demand Is the Key to Overall Balance

Viewed from our experience and lessons of 30 years of socialist construction, each dislocation of the proportionate relations in the national economy was caused by the fact that under the erroneous guidance of the leftist thinking the principle of acting according to one's capability and keeping expenditures within the limits of resources was violated, and excessive social demand was improperly stipulated beyond the total social production and beyond the possibilities of resources supply; the most important factor that brought the total social demand beyond the total social production was setting excessive capital construction investment beyond our means.

As we know, the greater the scale of capital construction investments, the more production resources are taken up and, to a certain extent, the production resources necessary for simple reproduction are reduced. At the same time, if most of the production resources taken up are resources such as energy, materials and capacity for making machinery and equipment that are jointly needed for producing consumer goods, the capacity for producing consumer goods will be reduced. Nor is that all. The greater the scale of capital construction investments, the more the labor power is taken up, with a corresponding increase in employment and wages, inflation of social purchasing power and concomitant growth in demand for consumer goods. In order to fully appraise this growth in demand for consumer goods, we should also realize that an increase in investments will set off a chain reaction and may give rise to a growth in workers' income to several times that contained in the investments. This is because investments give rise not only to increasing employment and workers' income in the investing department itself, but also to increasing them in the production departments that supply the investing

departments with energy, materials and equipment, while these departments, by increasing their production, will necessarily give rise to increasing employment and workers' income in the production departments that produce some raw and processed materials and equipment they need. Moreover, the increase in employment and workers' income at each level in the departments producing capital goods will necessarily entail increased employment and income for workers in the departments producing consumer goods. And this will give rise to an increase in the demand for consumer goods. This chain reaction at each level will not only strain the relations between supply and demand for capital goods but will also strain the relations between supply and demand for consumer goods as a result of increasing employment and workers' income at each level. For this reason, if investments are not brought under control, the proportionate relations in various spheres will certainly be dislocated.

Generally speaking, capital construction investments, besides expanding the total social demand, will sooner or later form new production capacity, which may ease up the strained relations between supply and demand in various spheres. But a further analysis reveals that the problem is more complicated. Statistically, the annual accumulation consists of the material product left after deducting the current year's consumption from the national income available for the year. This material product generally includes the following: 1) The fixed assets newly added by various departments. These fixed assets may be further divided into those newly added by the department producing capital goods, the department producing consumer goods and the nonmaterial production departments, e.g., housing, cultural, education, health and welfare facilities. 2) The value newly added by the unfinished capital construction projects during the year. 3) Floating assets of material objects newly added by various departments, e.g., increased quantities of raw and processed materials, fuels, and finished and semifinished products laid up by the production and construction departments and the increased quantities of goods kept in stock by the commercial and goods departments. 4) Goods reserve newly added by the state. Thus, from the composition of the accumulations it will be seen that the new production capacity that can really be formed for use during the current period or the following period and that can ease the strained relations between supply and demand in the current or immediate period is item 1, and the part it plays depends on its ratio to the total accumulations. In general, the larger the capital construction projects, the longer the period of project completion and the lower the efficiency of engineering construction, then the smaller is the ratio of item 1, the larger is the proportion of item 2, and the smaller are the immediate results of investments. At the same time, if the proportion of fixed assets in item 1 newly added by the departments producing capital goods is large, then the capacity for enlarging production of consumer goods for the current or immediate period will be still more limited. Furthermore, if there is an inappropriate increase in the proportion of accumulations in item 3, that is, the raw and processed materials, semifinished and finished products kept in stock by various departments, it is the result of overstocking caused by mismanagement, production of unsalable, inferior-quality products and separation of production from marketing. It is also a reflection of poor investment results for the current period.

In short, if through central and local financing, credit loan and enterprise funding capital construction investments are set too far beyond the possibilities of

supplying production resources, then on the one hand it is likely to reduce the supply of production resources necessary for maintaining simple reproduction and enlarging the production of consumer goods, and on the other hand, it will correspondingly expand the people's monetary income and increase the pressure on demand for consumer goods. If, over and above this, the results of investment are poor, the proportion of increased production capacity for producing consumer goods is small in the composition of accumulations, and products are unsalable because they do not meet social needs, undoubtedly the relations between supply and demand for production resources and between supply and demand for consumer goods will be strained, leading to imbalances in the national economy. At this juncture, in order to insure an overall balance by controlling and curtailing the total social demand, first of all it will be necessary to cut down the scale and adjust the direction and structure of investments.

Another factor constituting part of the total social demand is consumer needs. The growth in consumer needs depends on the increase in the urban and rural population's income. Naturally, this income will increase along with the increase in industrial and agricultural production, but the range of growth in average income must not exceed that in labor productivity. For this reason, simultaneously with curtailing and adjusting investments, another important aspect of striking an overall balance is to control people's consumer needs within the limits of possible production growth and the supply of consumer goods by controlling the prices of farm produce and the increase in average wages and monetary awards.

#### Adjust the Production Structure, Vigorously Promote Production of Scarce Resources

The total social demand stipulated in the plan and the scale and growth rates of its various parts need a suitable production structure as their basis and material guarantee. From the viewpoint of production structure, it is generally held that in order to insure an overall balance it is necessary to arrange the proportionate relations properly among agriculture, light industry and heavy industry. However, in practically insuring an overall balance it is very difficult to sum up the production structure simply as the three major branches--agriculture, light industry and heavy industry--and to arrange the rational relations and order of priority among the three so as to suit the structure of total social demand (including investment and consumption). It is very difficult not only because the differentiation of agriculture, light industry and heavy industry cannot dovetail exactly with the differentiation of production of capital goods and consumer goods; more importantly, it is because this rough differentiation covers a complexity and unevenness of growth possibilities within the three major branches. For example, the national economy is generally arranged in the order of agriculture, light industry and heavy industry, but heavy industry is composed of diverse branches with various sequences of social production, and some branches are the foundation as far as social production as a whole is concerned but are the weak links or vital branches that are scarce, and if they are not given priority, development of the national economy as a whole will be directly affected in the long run and even immediately. For example, energy production is such a branch. Obviously, it cannot be placed behind agriculture and light industry just because it belongs to the heavy industry branch. Production of some mineral materials and construction materials within the scope of heavy industry also falls in this category. The most important thing in dividing the production structure is to demonstrate the sequences of the social production process

in order to discover which is the weak link that is decisive and is not easy to remedy, that is, the branch of scarce production which is vital to social production as a whole. An overall balance in the national economy is precisely based on the supply of such vital scarce products and on the rate of their growth so that both the total social demand and the total social production will not go beyond the limits set by the supply of scarce resources. To be sure, with the passage of time and with technical progress, the weak links that are decisive will change and shift. But, due to uneven development, definite weak links will always exist within a set period. If we pay attention to differentiating the three major branches in general terms or to differentiating production of capital goods and consumer goods and to maintaining proportionate relations in general terms (this is not to mention the difficulty in differentiating the two departments), it will not be easy to demonstrate concretely the sequence of the social production process and bring to the fore the weak links that are decisive.

On the basis of these requirements, we consider that material production can be divided into three categories according to the sequences of the social production process: 1) Production of original products. This can be divided into agriculture (including animal husbandry, fisheries), forestry, energy sources (including coal energy, natural gas, petroleum, energy electricity, with the latter, strictly speaking, belonging to the following category), mining of mineral raw materials. 2) Production of intermediate products, including metal smelting, chemicals, and construction materials. 3) Production of ultimate products, including those used for investment purposes by the equipment manufacturing and construction industries and those used for consumption purposes by the consumer goods industry using mainly agricultural raw materials and the consumer goods industry using mainly chemical materials.

The above division of branches is a concrete manifestation of scientific division of social production into capital goods and consumer goods.

Production of original products is the basis of production of intermediate and ultimate products. Unlike certain technically developed capitalist countries, our country, with a large population, technically backward and weak in international competition, cannot possibly have the ability to export products in large quantities, repay debts and import large quantities of original products from abroad to make up shortages at home in the present stage. This being the case, it is still necessary for our entire social production to rest mainly on the foundation of our own production resources of original products. However, this production branch was affected for a long time by the leftist errors of the past. Because of this and also because of the poor conditions for production, huge investments involved and the long period of construction entailed, this category of production is precisely the weak link that is vital in our production structure, that plays a "vital" role in the total social production. Moreover, for a long time to come it cannot possibly grow at a fast rate. For this reason, on the one hand, we should adjust the production structure, concentrate appropriate financial and material resources to expand the branch producing original products (particularly agricultural and energy products) and give it priority in making investments. On the other hand, in arranging the total social demand, including consumption and investment, and in arranging production of intermediate and ultimate

products, we should consider the fundamental condition, that is, possibilities of supplying original product resources. To go beyond this condition will disturb the overall balance and lead to imbalances and make it impossible to achieve the best rate and the most macroeconomic results.

#### Importance of Economic Results

Beijing RENMIN RIBAO in Chinese 2 Mar 81 p 5

[Article by Zhou Shulian [0719 0647 5571]: "We Should No Longer Follow the Road That Leads to Poor Economic Results"]

[Text] Correct handling of the relations between economic growth and economic results is an important question in developing the national economy. In this question, our country has experience of success as well as lessons of failure. The main lesson is that blindly seeking a fast rate led to a decline in economic results. To sum up these experiences and lessons, determine the practical rate of growth in light of present conditions, and strive for better economic results is a very urgent task.

In the past, people held that economic growth and economic results were absolutely identical: fast economic growth would certainly mean good economic results. That was one of the reasons why we blindly sought a fast rate for a long time. As borne out by the facts, regarding economic growth and economic results as identical is an unbalanced view.

Viewed from the rate of growth in the gross value of industrial and agricultural output, our economic growth over the past 20 years and more was not slow, but the people's lives improved at a comparatively slow rate. The average annual rate of growth in the gross value of industrial and agricultural output reached 7 percent even during the 10-year period of calamity. This rate of growth was rapid compared with many countries in the world, whereas the people's income showed little increase and the average wages for workers even decreased. Why? We often explain it away by attributing it to an excessive rate of accumulation which took up consumer needs. Excessive rate of accumulation was indeed one of the reasons for this phenomenon; however, we cannot view the question merely from the standpoint of distribution but should examine the question from the standpoint of production, distribution and circulation--that is, from the standpoint of the total process of social reproduction. Such an examination will show that the main reason lay in very poor economic results in production and construction.

First, a great deal of consumption and waste in production. In many enterprises, the waste of raw and processed materials, fuels, power and even labor power was very grave, and in some cases startling. Undoubtedly this would lead to an increase in consumption, an increase in cost and a decrease in profits. The profits realized for each 100 yuan in fixed assets in our industrial enterprises owned by all the people amounted to 23.60 yuan in 1957 and 12.10 yuan in 1976, a 51.2-percent decrease; the profits and taxes realized for each 100 yuan in funds amounted to 34.70 yuan in 1957 and 19.30 yuan in 1976, a 55-percent decrease. This roughly reflects the decline in economic results in the process of production.

Second, poor quality of products, and in some cases waste products. Some products were turned out at a good price and with production value and profits calculated, but because of poor quality and other reasons they did not have the anticipated use value, or even none at all. Thus, they did not result in useful social wealth and distributable national income. It is calculated that 5-10 percent of the electromechanical products in stock have to be written off, and about 40 percent may be good enough to use but must be disposed of at reduced prices.

Third, slow process of circulation, overstocking of products, more funds taken up. In the case of industrial enterprises owned by all the people, the floating funds taken up for each 100 yuan in value of output amounted to 19.40 yuan in 1957 and 36.90 yuan in 1976, a nearly 100-percent increase. According to statistics compiled by the goods departments, 16 kinds of major raw and processed materials and electromechanical products in stock nationwide in 1979 increased 400 percent compared with 1964, while during the same period the national income increased only 140 percent and the gross value of industrial and agricultural output increased only 250 percent. In terms of the actual volume installed and used during the period, the electromechanical products kept in stock at the end of 1979 were equivalent to 1 and 1/2 years' consumption volume. Overstocking of products means that products cannot be put to use on time; and long-term overstocking means that some products completely lose their use value.

Fourth, poor results in capital construction. Our country has made many investments in capital construction but the waste is huge, the results are poor and the part they play is small. Since the "first 5-year plan period," engineering costs have doubled and redoubled, and so has the construction period. The rate of forming fixed assets was 83.7 percent during the "first 5-year plan period," 71.4 percent during the "second 5-year plan period," 59.5 percent during the "third 5-year plan period" and 61.4 percent during the "fourth 5-year plan period." If the level for the "first 5-year plan period" had been maintained, fixed assets would have increased by 100 billion yuan during the 1958-1978 period. The amount of investments needed to increase the national income by 1 yuan was 1.68 yuan during the "first 5-year plan period" and 3.76 yuan during the "fourth 5-year plan period," a more than 100-percent increase. If the level for the "first 5-year plan period" had been maintained, the national income would have increased by more than 300 billion yuan.

Marx once quoted Ricardo, a classic economist of the bourgeoisie: "The real wealth consists in using the minimum expenditure to create the maximum use value. In other words, this means creating the most material wealth with the minimum expenditure of labor time." ("Collected Works of Marx and Engels" Vol 26, p 281). Due to a decline in economic results, although the rate of growth in the gross value of industrial and agricultural output was not slow, the real social wealth did not show a corresponding increase. This plus the high rate of accumulation and increase in population made it difficult to improve the people's livelihood.

Comrade Chen Yun [7115 7189] pointed out as far back as in the early sixties that seeking unrealistically high targets would undoubtedly cause waste. The high target sought at that time was represented as striking a positive balance, that is, striking a balance in terms of plentiful commodities. Summing up the lessons during the Great Leap Forward, Comrade Chen Yun pointed out: "To strike a balance

in terms of plentiful commodities cannot possibly achieve an overall balance and can only result in overstocking materials and semifinished products."

He further said: "In past years there were high targets, less goods, production living off its past gains, and lack of co-ordination in capital construction." Thus, long ago we should not have followed the construction road of a fast rate but poor results.

Comrade Chen Yun put forward the method of eliminating high targets, pointing out: "Planned targets should be worked out in light of various conditions and according to our capability and must not be set according to subjective wishes." He emphasized overall balance, saying: "Without paying attention to overall balance, we cannot move a single step forward in developing the economy." The controversial issue at that time was when to begin striking an overall balance. Comrade Chen Yun's view was: "Overall balance must begin now, from the current year's plan and from the first step. We cannot say that so many million tons of steel must be reached before striking an overall balance. We should proceed from an overall balance at the present economic level and, after earnest study and calculation, see what level can be attained by long-range plans. Under no circumstances can we turn the other way round." Furthermore, he advocated striking an overall balance in terms of goods in short supply. "Striking a balance in terms of goods in short supply means that a balance between supply and demand is insured by combining the things that can be produced in the current year, with the necessary inventories available and with dependable imports." Only by so doing "can a real overall balance be insured." "Provided an overall balance is achieved, there is nothing to be afraid of, even if the target is a little lower. The target looks low but it is much better than an unrealistically high target. We can keep the initiative and avoid being placed in a passive position." These views are still applicable today.

Summing up past experiences and lessons, from now on we must not place an increased rate as the primary focus. Instead, we should attach importance to economic results and place them in the most important position. We should determine a rational rate of growth according to the requirements and achievement of the best economic results instead of seeking a so-called fast rate, at the cost of lowering the economic results. The criterion for determining whether the rate of growth is good or bad lies in whether the best economic results can be achieved. Furthermore, it is necessary to handle properly the relations between economic growth and economic structure. The growth rate target should be such as to facilitate rationalization of the economic structure. Only by doing this can better economic results be achieved. There is a good reason why modern economics deals with economic growth, structure and results together. The object is to insure that economic growth will facilitate improvement of the economic structure and increase economic results.

The key to proper handling of economic growth and economic results lies in correctly understanding the state of affairs in our country. We are proceeding with construction in a country with a population of 1 billion and a very low level of productive forces, and in particular with very low agricultural labor productivity and a low commodity rate of farm produce. A considerable part of the peasants

are comparatively poverty-stricken. This state of affairs conditions the rate of our economic growth, on the one hand, and determines the necessity to give greater importance to improving the economic results and the people's livelihood on the basis of production development, on the other. We can no longer depend on increased capital construction projects and increased consumption of energy and raw and processed materials to enlarge reproduction. We should enlarge reproduction mainly by deploying the immense potentials of existing enterprises and by improving management and technology, cutting down on consumption, increasing variety, improving quality and increasing efficiency. As long as we bring the superiority of the socialist system into play, it is possible for us to develop our national economy more rapidly and better than under other social systems. We can no longer rashly put forward unrealistic slogans.

Since the Third Plenum of the 11th CCP Congress, the whole party and the people throughout the country are endeavoring to pursue a construction suited to the state of affairs in our country. The policy of "readjusting, restructuring, rectifying and improving" is the correct policy formulated in light of the actual conditions at present. In the past 2 years, the national economy has been readjusted with conspicuous results. For instance, the rural economy has been invigorated, the growth of light industry has been given priority, the quality of many products has been improved, consumption has declined and the people's income has shown an increase. But the present task of readjustment has not been fulfilled. For the present, we should resolutely cut down the scale of capital construction to the extent that it can be borne by the financial and material resources of the state. We should overcome the phenomena of redundant construction and blind construction. Furthermore, we should take all the necessary measures to increase the production of goods needed on the market, increase revenues and strive for early elimination of financial deficits. Only thus can favorable conditions be provided for improving the economic results. To be sure, in order to improve the economic results, a great deal of work remains to be done and a series of concrete measures must be taken to rectify and reorganize enterprises, carry out technical transformations, adjust the economic structure and restructure the economic system. We should endeavor to work on solid ground and open up a new path to economic development that is suited to the state of affairs in our country.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' ON MARKETING UNDER SOCIALISM

HK040824 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 1, 20 Jan 81  
pp 45-53

[Article by Yang Jianbai [2799 1017 4101] of the Economics Research Office of the Chinese Social Science Institute: "On the Question of Market Realization Under Socialism"]

[Text] For a very long time, there has been very little study of the question of market realization under socialism. Some people even think that under socialism the question of market realization does not arise since the principle of planned economy is well observed, and the national economy develops according to plans and in proportion. But practice has proved that this is not true. For this reason, this article will be devoted to the study of the above-mentioned questions from the angle of combining theory with practice.

#### I

In capitalist society, the theory of realization is to explain how reproduction of total social capital and circulation proceed, that is, to analyze the realization of products. Marx said: "If we observe the production of capital value and product value from the angle of single capital, the material form of commodity products has nothing to do at all with analysis.... But if we observe total social capital and its product value, it is not enough just to explain them in the way of form. A part of product value transforms into capital, and another part goes into the personal consumption of the capitalist class and the working class. This shows the formation of a movement in product value itself caused by the results of the function being exercised by the total capital. This movement is not only the replacement of value, but also the replacement of material, and so it is not only restricted by the proportion between the component parts of the value of social products, but is also restricted by their use value, by their material form." (Marx, "Das Kapital," Vol 2, the People's Publishing House, 1975, pp 437-438) Lenin also said: "The question of realization is the question of replacement in which the various parts of social products are analyzed according to their value and material form." ("On Economic Romanticism," "Collected Works of Lenin," Vol 2, pp 128-129) In order to carry out replacement of value and replacement of material objects, Marx divided the total social products into two big categories according to the material form of products: the means of

production and the means of consumption; and then he divided the products of the two big categories into three parts according to the important elements of value: constant capital (C), variable capital (V) and surplus value (M).

It is obvious that the question of realization is the question of social reproduction, the question of macroeconomics. It includes two aspects that are related to one another. One is how to realize the various parts of the product value, that is, how to sell out the products that have been produced, to turn them from the form of commodities into the form of money; the other is how to purchase back what is needed by them, namely, how to attain replacement of material, after the various parts of the product value have been converted into money. The analysis on the realization of the various parts of social products and on their replacement is inseparable from the two big categories of the means of production and the means of consumption that are divided out from social products, because the means of production are for the use of the consumption of production; and the means of consumption are for the use of personal consumption. The former only serves as capital, that is owned by the capitalists; while the latter becomes income, that is allocated among the workers and the capitalists, and that is annihilated in the consumption of the workers and the capitalists. In other words, only through market exchange can wages and surplus value of the production departments that manufacture the means of production be realized; and can the constant capital of the production departments that manufacture consumer goods be realized. That is to say, the relation between I(V plus M) and II(C, and the proportional relations between the various departments and within the departments themselves, are realized through the exchange of commodities.

Everyone knows that socialist production is socialized large-scale production. There also exists the question of how reproduction of total social funds and circulation proceed. There also exists the question of replacement of material and of how to replace the various parts of social products according to their values. But they are different in nature from the question of realization under capitalism. The prerequisite for the question of realization is proportionate development of social reproduction. Socialism has established the system of public ownership of the means of production, and exercises the principle of planned economy in which social labor is allocated according to proportion. Insofar as the social system is concerned, there do not exist the difficulties for realization or the roots of economic crises. Therefore, provided mistakes and miscalculations do not occur in our work, the various parts of social products may be realized smoothly. On the contrary, realization under capitalism always goes through the process of "difficulties," "fluctuations," "crises" and so forth. Marx said, "The most fundamental reason for all real crises is none other than the poverty of the masses and their limited consumption. While in capitalist production, efforts are made to develop the productive forces regardless of these circumstances. It seems as if only the absolute consumption capability of society is the boundary for developing production." (Marx, "Das Kapital," Vol 3, p 548) Therein lies the crux of difficulties that emerges in realization under capitalism. Insofar as the system is concerned, the root of this disease has been wiped out in socialist society. So there is the possibility of carrying out the principle of planned economy, and therefore broad ground has been opened up for successfully realizing marketing.

In socialist society, there still exists the question of realization. The fundamental reason is that the socialist economy has the characteristics of socialized large-scale production in which the division of labor is linked with cooperation, and the products manufactured by the various production units are not for self-consumption, but for exchange; in the meantime, our socialist economy today is a planned commodity economy that has both a planned and commodity nature. The products which have been manufactured must go through exchange so as to get into the hands of the users for consumption (including production consumption and living consumption). Whether this exchange undergoes the process of the market or not, it has to proceed through circulation so that replacement of value and replacement of material can be attained, and social reproduction can be carried on. Whether this exchange takes place between the two great categories, between the departments, or within the categories and departments themselves, it is not an exchange of one commodity for another. But it is completed through the media of money and through money circulation. Without the circulation of money and without the purchase and sale of commodities, social reproduction cannot be carried on. Just because of the actual socialist economy, commodities, money, marketing and the relevant economic categories such as value, prices, wages, funds, profits, interests, and so forth still exist. Therefore, there cannot but exist the question of realization. For a very long time, the question of market realization has been negated and ignored. This is inseparable from the ideologico-trend that negates commodities, money and the law of value.

The socialist revolution predicted by Marx and Engels was to achieve victories simultaneously in several highly developed capitalist countries, where the public ownership of the means of socialist production would be established, and the society would directly carry out production and allocation. Here, there would be no more commodities, money or marketing, and the laborers would only use a kind of laborers' coupon that was prohibited from being circulated. Nevertheless, the subsequent historical practice did not develop as predicted by Marx and Engels. Socialist revolution--the October Revolution--broke out in a very backward capitalist country. To date, commodities, money and the market still exist in all socialist countries. At the 17th party congress, Stalin described ironically the "Red professors" and trading personnel who indulged in empty talk about direct commodity exchange as Don Quixote-like figures. He said that they had lost their sense of perception in life, and that they had deviated far from Marxism. He also said, "Money will continue to exist here among us until communism enters its first stage, namely, until the completion of the stage of socialist development." ("Summary Report to the 17th Party Congress on the Work of the Central Committee of the CPSU(B)," "Collected Works of Stalin," Vol 13, p 304) Historical practice has told us that so long as commodities, money, the marketing and exchange still exist, there cannot but exist the question of realization. We can elaborate further that even if commodities and money are eliminated in the future, there will still be the question of replacement of "value" and of replacement of material, since exchange is still needed. Lenin said, "Even if in pure communist society, does there not exist the relation between I(V plus M) and II(C? And accumulation, too!)" (Lenin: "Comments on Bukharin's 'Economy During the Transitional Period,'" the People's Publishing House, 1976, p 24) It is obvious that the question of exchange and replacement cannot be negated. Whether the contradiction between equilibrium and

disequilibrium that emerges in the process of exchange and replacement can be called realization, it needs further study.

## II

Now let us observe and analyze market realization from the angle of the actual process of socialist reproduction.

The general process of social reproduction is the process of a movement with total social products and the national income as the principal body. The development of the socialist economy is based on frugal labor and planned allocation of labor. According to theory and principle, production, allocation, exchange and consumption should be linked with each other under planned measures and should be developed in proportion. But the actual situation is intricate and volatile. The reason is that social products have dual characteristics. On the one hand, the process of reproduction of the total social product and of the national income manifests itself in the movement of material; on the other hand, it manifests itself in the movement of value. Because the movement of value proceeds in the form of monetary movement, the latter also concretely manifests itself in monetary movement. These two movements have a unified origin. They are independent of each other, but at the same time are in coordination with each other. Hence the contradiction.

In the process of production, the production of use value and the creation of value are unified. As soon as products are produced, their use value and their movement of value become separated from each other. On the one hand, the products appear in the form of material and serve the society according to their use value, that is to say, money is obtained through exchange of commodities; on the other hand, allocation is carried out according to their value (only under rare circumstances is allocation carried out according to material, such as in agriculture. But prices are calculated). Material goods are purchased with the money that has been allocated, and this purchase is not limited only to the products produced by the unit of the producers.

In other words, the products that have been produced are extrinsic to the producers; and after being exchanged, the products do not belong to the original producing unit. What is obtained is the relevant amount of money, that is, money for allocation. By saying that the structuring of product value is C plus V plus M, we mean that after the first allocation, the unified product value decomposes into the three parts of C, V and M. The products that have been produced are the material undertakers of these three parts, and after the first allocation, they carry out their activities by different channels in the form of money. They wish to purchase the relevant use value.

Marx divided social products into C, V and M from the angle of the value that has been simultaneously created and formed in the process of production. In capitalist society, the capitalists plunge constant capital and variable capital into production. The process of the production of products is the process of the formation of value. In the products that have been produced, C is transfer value, while V and M are newly created values. In socialist society, funds also have to

be invested first so as to carry out production; the principle for the creation and formation of value is the same. What is manifested by C, V and M is still the "structuring of production value," but the relation of production that is reflected is different from that of capitalist society. In addition, let us study social products from the angle of their use. After having gone through the first allocation, the original product value decomposes into C, V and M, and after having gone through a complicated process of reallocation, the national income (V plus M) forms into the final use of the three great social funds, namely, funds of replacement, funds of consumption and funds of accumulation. The value that forms in the final use should be applied to the reproduction of social products. Therefore, this may also be called the "structuring of reproduction value." These three great funds are different from C, V and M. I use R, K and A to respectively represent funds of replacement, funds of consumption and funds of accumulation funds. (Please refer to "Arguments on Several Questions of the Equilibrium of the National Economy," JIANGHAN XUEBAO [3068 3352 1331 1032], 1964, Issue No 6.) Now I still use these three alphabets.

As pointed out above, C represents transfer value in the products that have been produced. When it returns to reproduction as funds of replacement (R), it is in the same form as the original transfer value. When C changes into R, the means of labor and raw material that were originally consumed in production must be given replacement of material object and value so as to carry out reproduction.

The depreciation funds in the funds of replacement are gradually withdrawn and accumulated according to their value and in the form of money, due to their characteristics of fixed assets. After the use of the means of labor comes to an end, a once only exchange of material objects is carried out (leaving open the question of maintenance and special types of exchange). In the constant progress of technology, the withdrawn depreciation funds are not equivalent to the funds that are actually used for replacement. One case is that if we only pay attention to the visible loss but ignore the invisible loss, the depreciation rate will become too low, and we will have to discard some machinery and equipment ahead of schedule because of the possible emergence of new technological equipment. In this case, losses will be suffered. Another case is that appropriate depreciation funds have been withdrawn according to the original value of the fixed assets, but no more such funds will be needed for the purchase of machinery and equipment of the same efficiency during the exchange of material objects. The depreciation funds are originally of the nature of simple reproduction, but a balance exists between withdrawal and use, so the nature of this balance will change into that of enlarged reproduction. In addition, except for some parts that are used for maintenance, in practice, the depreciation funds of fixed assets can be constantly used for promoting or enlarging production, that is, they can play their role as accumulation funds, from the day they are withdrawn until the day the fixed assets are completely used up, discarded and renewed. (See "The Theory of Surplus Value," "Collected Works of Marx and Engels," Vol 26, II, pp 548, 697)

The production funds used for the purchase of raw materials, fuel and supplementary materials may all be recouped after the products are sold. But when the production funds return to reproduction as funds of replacement, there may be a

rise or fall in the prices of the important elements such as raw materials, and so on. If the prices rise, it is necessary to make additional production funds so as to maintain the original scale of production. Under the condition of normal production and constant progress of technology, the prices of those important elements needed for reproduction are always lower than the former period. So the monetary funds needed are not as much as were originally used. This balance will also help enlarge reproduction.

Therefore, the funds of replacement ( $R$ ) are different from the original transfer value ( $C$ ), whether they are viewed from the angle of depreciation funds or from the angle of production funds for raw materials.

The consumer funds ( $K$ ) are also different from  $V$  of the primitive income.  $V$  is remuneration allocated for labor of the material laborers, while the consumer funds are the whole funds that are formed through the reallocation of the national income in the sphere of the whole society and that are finally used for consumption. They include not only all personal consumption in the field of material production and in the field of nonmaterial production, but also the public consumption of society. Therefore,  $K$  are generally larger than  $V$ , so far as quantity is concerned.

The process of social reproduction is the unification of production and consumption. This is the general characteristic of social reproduction in various social forms. Personal consumption is not included in the direct production process. But in reproduction of total social capital, personal consumption is an indispensable part of the movement of total social products, because personal consumption will in return act on production, which is the starting point, and it will cause another whole process. If personal living consumption is not guaranteed, the value and use value of some products cannot be realized, reproduction of the labor force and reproduction in the whole society cannot be continued. The purpose of socialist production is to meet the requirements of the people's consumption, especially to guarantee the maximum supply of the means of subsistence.

Accumulation funds ( $A$ ) are also finally formed through the reallocation of the national income. They are generally smaller in quantity than  $M$  of the primitive income. Some of  $M$  of the primitive income stays with the enterprises under the system of ownership by the whole people, in the form of profits; some is controlled by the state by means of turning profits over and paying tax. The state collects some of the national income mainly through financial and credit channels and by means of price levers. Some of the income controlled by the state and enterprises under the system of ownership by the whole people is returned to the people in the form of retirement funds, school subsidy funds and insurance funds; some is used for the expenditure in the field of nonmaterial production such as scientific research, culture, education and medical services, and for the expenditure in state management; the greater part is used for the investment in productive and nonproductive capital construction and for social reserves. The income controlled by the units under the system of collective ownership is left after personal allocation is carried out. Some is turned over to the state as tax, and some is retained by the units themselves. The part that

is retained by the units is mainly used for investment in production building, namely, for accumulation, except for a small part that is used as public welfare funds for public consumption.

The greater part of the formation of material objects in accumulation funds is the means of production, including a part of the means of subsistence. According to their use, they may be divided into production building funds, non-production building funds and reserve funds.

From the above analysis, we know that V and M regroup through reallocation within the sphere of society. Then they change into funds of consumption (K) and funds of accumulation (A). The greater part of K is formed by the income of the productive laborers, and a part of M changes into K again. So, K are always larger than V, A are always smaller than M. Therefore, the ratio between K and A is different from the ratio between V and M. Generally speaking, the ratio between V and M affects the ratio between K and A to a very great extent; but on the other hand, the ratio between K and A also acts in return on the ratio between V and M.

In the production process of the products of social reproduction, the production of use value is in compliance with the formation and increase of value. Monetary income is formed during the realization of value. Its total amount is decided by the total amount of social output value. The three large social funds--funds of replacement, funds of consumption and funds of accumulation--are after all transformed from C, V and M, though their final formation must go through a complicated process of allocation and reallocation. Therefore, the total and formation of social requirements (that is, purchasing power in the form of money) which are formed by the three large social funds and which have payment capabilities should be in conformity with the total and formation of material objects of social products. This is the basic principle for the proportionate development of social reproduction, and also the basic condition for guaranteeing the normal operation of social reproduction.

The theory on realization is based on the supposition that production develops according to proportion. Theoretically speaking, we can smoothly realize social reproduction, so long as we arrange well the development speed and proportion of the national economy, and so long as we do a good job in production, circulation and cooperation, and in signing and implementing contracts. In socialist society, the general process of reproduction and the process of circulation are carried out under unified planning and instructions. The reproduction of social products, the ratio between the two large categories and the formation of social requirements which have payment capabilities, are all the results of the implementation of planned measures. For instance, the material goods required for the funds of replacement are restricted by the ratio of material technology, and are controlled by the production plan of material products. The greater part of the use of the funds of accumulation is determined by the state according to financial and material proportion, except for some badly planned small parts under the system of collective ownership. The use of the funds of consumption is rather complicated. But the consumption requirements of the people's livelihood are always restricted by the actual economic conditions, and people can only purchase

consumer goods within the limits of their monetary income. In this respect, the funds of consumption are also restricted by the state's planned measures. The above-mentioned shows that so long as we do a good job in planning, a balance between the circulation of currency and that of material objects can be attained and smoothly realized.

In addition, we should also understand that in socialist society, exchange is still necessary as a medium, and mutual needs are met by means of exchange. Whether or not exchange of products is realized through the market, and no matter how long the products spend in the field of circulation, they must after all go through the process of circulation. Reproduction can be carried out only after exchange is completed. The work of commodity circulation and exchange is the work of realizing the change from commodities into money and from money into commodities. To some extent, this work is more complicated than the work of organizing production, because it involves the combination of hundreds of millions of products with the needs of tens of millions of units and of millions upon millions of individuals.

After the products are produced, they appear in the form of commodity goods, while their value appears in the form of monetary funds, here begins the process of an independent movement of each of the two. It should be mentioned that the movement itself consists of the possibility of being disproportional. In actual economic life, the process of realization is an intricate process in which commodities change into money and money changes into commodities. On the one hand, the value of social products will be realized into monetary income; on the other, out of so many social products, various kinds of purchasing power will purchase the appropriate commodities as replacement of material objects. Nevertheless, the total quantity, the formation, the items, the sizes and the quality of the social products on the market, are not necessarily in conformity with the needs of the purchasers (the holders of the three large social funds); and selling prices are often not in compliance with those that have been originally fixed (regardless of whatever reasons). So far as the money holders are concerned, there exists the question of to buy or not to buy, to buy early or to buy late, to buy much or to buy little, what to buy and what not to buy; the amount of money belonging to the individuals which is not used for the time being, may or may not be deposited in the credit organizations; the funds and income of enterprises, institutions and organizational bodies are generally deposited in the bank and their current accounts are usually settled through credit institutions but there is great flexibility as to when the money can be withdrawn. In addition, the state bank will readjust many aspects of economic activities through credits, and will issue a certain amount of money according to the development of social production. Are the requirements and supply of commodity goods always just appropriate, insofar as their total quantity and formation are concerned? Are the appearance and withdrawal of currency and the amount of currency put in circulation in conformity with actual production? In reality, this "absolute equilibrium" does not exist. Therefore we say there always exists disequilibrium between material objects and social requirements which have payment capabilities. Especially in the movement of monetary income because of the intervention by reallocation levers such as finance, credits, and so forth, the situation is getting more and more complicated. After the intervention by the

activities of finance and credits, the monetary income that is finally formed and the above-mentioned three large social funds (social purchasing power) change in their total amount and formation. This will inevitably cause some difference to the social products, as far as the total and formation of material objects are concerned. As a result, either some purchasing power cannot be realized, or some products are stockpiled; or this part of purchasing power cannot be realized, and some other products are stockpiled. For instance, within the period of a year, when financial and credit expenditure is larger than income, and this balance cannot be offset by the balance in favor of enterprises, institutions, organizational bodies and individuals in which income is larger than expenditure, then the monetary purchasing power that is finally formed is enlarged. In this case, it is inevitable that the purchasing power cannot be realized. The above-mentioned condition shows that even if we have done a good job in equilibrium, under certain circumstances, the phenomenon of overproduction and insufficient funds may emerge, and some of the products cannot be changed into money; under other circumstances, the phenomenon of insufficient production and excessive funds may emerge, and some of the money cannot be changed into commodities. If we do not do a good enough job, or if we even give instructions blindly, disequilibrium will emerge on such a large scale that the smooth operation of social reproduction will be interrupted. That is to say, in our socialist economy, the question of market realization actually still exists. Historical experience has told us that since the question of market realization still exists in a socialist economy, it is all the more necessary for us to focus our attention on the equilibrium between the amount of currency and the quantity of material objects so as to constantly strengthen the equilibrium work in the national economy.

### III

Lastly, let us study and analyze the questions that are revealed in market realization.

Production and marketing have been uncoordinated for many years in China, and so has the problem of purchasing power being unable to be realized completely. The material formation of commodities is not in conformity with the needs of the consumers, therefore some commodities are stockpiled and some are out of stock; the whole social requirements that have payment capabilities are larger than the sum total of commodities that can be supplied, therefore, in recent years, of the social purchasing power for consumer goods, about 10 billion yuan per year has been unable to be realized. In addition, there is a gap in material planning and arrangement, therefore a great part of the monetary purchasing power for the means of production cannot be realized. An example is capital construction. In recent years, in capital construction of the three large materials of steel, timber and cement, almost every year goods and materials have fallen short of investment by 20-30 percent. Production often stops due to the shortage of fuel and power and due to the unavailability of the relevant raw materials. Some units have to rely on bank loans to maintain their living, because their products cannot be sold out. Some units persist with their production, even though their products are stockpiled and storage keeps increasing. These phenomena seem to be individual questions, if viewed in isolation. But if they are viewed as a whole, it is a question of disproportion. Because replacement of value and replacement

of material objects cannot be realized, the normal operation of social reproduction is affected. It absolutely cannot be solved by means of treating the symptoms but not the disease. It can only be solved by realizing marketing through the comprehensive proportion of the national economy.

The question of market realization is in essence the comprehensive reflection of production, allocation, exchange and consumption. It is not simply a commercial question. Market mechanism is a very sensitive indicator. Because our social products must all pass through exchange to get to consumption, many economic relations, the coordination of production and marketing and the coordination between various departments are all concentrically and comprehensively reflected in the field of circulation through market realization. Through observing the question of realization, we can grasp the question of production, the question of marketing, the relations between commercial (including material) departments and production departments and the question of finance and credits. Therefore, we must firmly grasp the questions that emerge in market realization, seek the root cause and carry out readjustment of the national economy. This will be beneficial for the implementation of the principle of readjusting, reforming, consolidating and improving. At the same time, this is a theoretical question that merits attention and study.

First, the dislocation between production and marketing that is reflected in market realization shows that our social production has not yet developed according to proportion. There exists to different extents the question of dislocation between production and demand either between the two large categories or in the categories themselves, or between various departments or in the departments themselves. Production is the point of departure, consumption is the terminal point. Exchange is the media. Production is for the sake of meeting demand, but demand can only be met through exchange. If the products that have been produced cannot be sold, this shows that we do not carry out production in order to meet demand, but carry out production for the sake of production. If this goes on, not only will the requirements for consumption of production and for consumption of living not be met, but on the contrary, reproduction of the producers themselves will be interrupted. Facts have told us that in readjusting and forming the national economy, the principle of fixing production according to demand and of production being in coordination with marketing must be carried out under the state's planned instructions. Of course, what is meant by demand can only be demand on a /society scale/ [slantlines denote boldface type]. It will be more assured if a production and marketing contract is made. If production is carried out blindly according to the transient phenomena of market demand, then products will be stockpiled, and factories may even have to close down. The danger of stockpiling of products and closing down of factories has existed in the past 2 years because of the emergence of some phenomena of blind and duplicate production. An example is the production of household electrical appliances.

Second, production departments, especially commercial and material departments (commerce of the means of production) should be susceptible to market developments and should master the laws of the market. In these 2 years, the means of production has been allowed to enter the market, so that the production and circulation of the means of production have taken a new look, because the

superstition of the means of production not constituting a commodity has been broken. For instance, machines and electrical products have been admitted as commodities and allowed to enter the market. In this case, the machinery and electrical industry is enlivened, and the passive situation in which commodities were unmarketable has changed. This is very good evidence. There are similar problems in the production and marketing of other products. So far as the commercial and material departments are concerned, they should replenish their stock according to market requirements, and refuse to receive low quality commodities which are not suitable for marketing. By firmly grasping this point, not only can we reduce the stockpile of unmarketable goods of the commercial departments, but also supervise the improvement work of the production departments. So far as the production departments are concerned, they should also conscientiously utilize the market mechanism in carrying out regulation by planning mechanism.

Third, some of the purchasing power cannot be realized. On the one hand, it reflects that production is not sufficient and that the products are not in conformity with the requirements of the market; on the other hand, it also reflects that the monetary purchasing power which is finally formed through credits and financial allocation is excessive. There are of course many reasons. But it is caused, to a very large extent, by not implementing the principle of comprehensive equilibrium in the financial and credit field.

The practice of economic life has told us that though the production speed is rather fast and though the economic situation is apparently excellent, it may be false prosperity, therefore there has not been relevant increase in financial income. For instance, for some individual years, consumption in many units was large, but efficiency was low, no profits were gained and losses were even incurred. But the output value of the products calculated according to fixed prices was reported to the higher authorities as the increased quota of production. Another example is that low quality products or unmarketable products are blindly produced in large quantities. This is also reported to the higher authorities as the increased quota of production. But in reality, a large quantity of products is stockpiled in the storehouse, and in order to sell them, their prices have to be reduced. Some are even discarded. It is quite a common sight for capital construction to be carried out by means of diverting financial expenditure or by relying on bank loans, thus overextending the capital construction front so that many projects have to be abandoned half way. Once a project is started, the progress of work is reported to the higher authorities as the increased quota of production. This increased quota of production also includes the increase of the salaries and rewards of the staff and workers, and is naturally calculated as the increase of national income. But in reality, there is not so much wealth created. There are practically no economic profits, nor is there any increase in the financial income. Under such circumstances, how do the enterprises support themselves? And how do they maintain "production"? They borrow circulating funds from the bank. Some have even gone so far as to borrow money from the bank on the one hand, and on the other to take back the profits and tax that have been turned over to the state. Maintaining "production" by borrowing circulating funds from the bank, overextending the capital construction front by diverting financial expenditure or by borrowing money

from the bank, are in reality creating false prosperity by relying on deficit finance and inflated credit. This can only add difficulties to the realization of purchasing power.

China exercises the comprehensive financial system (under which finance, credits and foreign remittance are planned as a whole and are in balance), and our people's bank is the state bank. The financial institutions and the banks should not only handle vocational work, but also bring into full play their functions of supervision, management and control. So long as they bring these functions into play, that will enable the various economic departments not to carry out production blindly and without results. This is necessary for the realization of comprehensive equilibrium of the national economy. This is also an important link that needs urgent and serious implementation in the present readjustment.

Fourth, deficit finance is an outstanding question that can be experienced and observed in market realization. Under China's actual economic conditions, the economic catastrophes inflicted on us by Lin Biao and the "gang of four" have been too serious; and the mistakes and losses in work have even added to our difficulties. In order to readjust the disproportionate relations, in order to repay the debts that had been accumulated in our life for many years, and for the sake of national defense, the year 1979 witnessed financial deficits. It /may be understood/ [slantlines denote boldface as published] this year's deficits will not become smaller. This is understandable. But as to what principle and attitude we should adopt toward deficit finance, this is a big question that one should not be vague on.

Viewed from the angle of comprehensive equilibrium of the national economy, I think it is correct for our country to have been carrying out for many years the principle of keeping revenue and expenditure in balance with a slight surplus. This should be kept up. It is possible for a small amount of deficits to appear in some individual years. We can manage to make them up, so this is not a big problem. But if deficits appear for some consecutive years, and the deficits are big, we cannot but pay special attention to them. In 1979, China's financial deficits reached 17.06 billion yuan, which accounted for 5.1 percent of 331 billion yuan used in the national income, 13.4 percent of the expenditure of 127.39 billion yuan in the final state account and 34 percent of the total amount of investment of 50 billion yuan in capital construction within and outside the state budget. (Absolute figure. Report to the Third Plenary Session of the Fifth People's Congress by Vice Premier Yao Yilin and department head Wang Binggan) It should be mentioned that the deficits are very big, even by comparison with capitalist countries. Though some countries propose stimulating production by means of deficit finance, deficits are generally kept to within about 3 percent of the national income. (The methods and specifications for planning national income in capitalist countries are not the same as ours.) Deficits are allowed for in planning itself. This is another form showing that a gap has been left in planning. Such planning is against the principle of comprehensive equilibrium. Stimulating economic development by means of deficit expenditure was the "masterpiece" of Keynes. Before Keynes' theory came out, bourgeois economists were all against financial deficits. Since the 1930's, the capitalist countries have tried to stimulate economic development and slow

down inflation by means of deficit expenditures. This has played a positive role to a certain extent in developing the economy. In recent years, this method has begun to lose its efficacy. Our socialist country cannot of course take the capitalist track. Theoretically speaking, financial deficits are first overdrawn by the bank, and then payment can proceed. Although we may use the financial surplus over the years to make up for some deficits, or we may apply for interest loans from the bank, if the deficits are too large to cover, and if there are deficits every year, ultimately, it is inevitable that new money will have to be issued. What will be the results? In the final analysis, the losses will be shifted on to the people by increasing the prices of consumer goods. Department head Wang Binggan said in his report that the recent rises in the prices of commodities had reflected this relationship.

Our accumulation rate is a bit too high, and the capital construction front is overextended. This is the internal relation that causes financial deficits. But the proportion of investment in capital construction of our country is not predominant in the funds of accumulation. For instance, the total investment in capital construction within and outside the 1979 state budget was 50 billion yuan, only 45 percent (according to statistics, this figure always constitutes about half) of the total accumulation of 112 billion yuan. (In the figure for the total investment of 50 billion yuan, neither funds for tapping potential and restructuring, nor investment under the system of collective ownership are included.) According to the usual practice in our country, the investment in capital construction is used in combination with some capital depreciation funds. And of the 50 billion yuan, a certain amount was debited from the accounts of deficit finance. Obviously, the part of /accumulation funds/ [slantlines denote boldface as published] that is used for enlarged reproduction is not too big after all. Accumulation funds should include the necessary reserve funds. But if a large quantity of stockpiled goods is included, then it will be accumulation in name but "lying idle" in essence, and the relevant part of monetary circulation will have to be maintained by issuing credits and even through deficit financing.

Now let us compare financial deficits to the investment in capital construction. As pointed out above, the financial deficits in 1979 were 34 percent of the total investment in capital construction. This is of course merely for comparison. It does not mean that financial deficits were all used for investment in capital construction. But it is also undeniable that it means a considerable part of investment was started by relying on deficit finance. The investment in capital construction arranged in the 1979 budget was 39 billion yuan (including reserve funds of 3 billion yuan for capital construction). After the problem of disproportion emerged in the first half of 1979, the party Central Committee decided to reduce the investment in capital construction that had been arranged for in the budget by 20 percent. But because many projects had already been started, the greater part of the capital outlay could not be recouped, though capital construction had stopped. In 1980, the party Central Committee decided to further reduce the scale of capital construction. A group of new projects were brought to a stop. But it was all the more difficult to recoup capital outlay, because the projects had been in operation for more than a year. At the same time, local governments of various levels and many enterprises carried out

investment by means of so-called self-accumulated funds. These investments were larger than the investments that had been reduced. A total investment of 50 billion yuan arranged within and outside the budget was completed by carrying out the 1979 plan. This was higher than what had been planned, and also higher than the 47.9 billion yuan of 1978. We can see that the total investment in capital construction in 1979 exceeded 10 billion yuan. Needless to say, this had much to do with financial deficits. It seems that the result of the implementation of the 1980 plan will exceed 50 billion yuan. In other words, if strong measures are not adopted to control the investment in capital construction, and if the principle of increasing production and practicing economy is not exercised, it will be hard to annihilate deficits. And so long as there are financial deficits, our task of readjustment will remain difficult.

Fifth, our national economy has not developed in an ideal and proportionate manner. This question has been revealed in market realization. In planning work it has not yet managed to economize on labor. Proportionate allocation of labor power and of material and financial resources is a very good test.

Planning is a subjective will. Production plans should be able to reflect the market situation accurately or fairly accurately, because social products can be used for consumption of production and consumption of living only after being exchanged. This determines the fact that, when making a plan, we should not only consider the levels of the productive capabilities of the production units themselves, but also utilize the market mechanism and refer to market information in carrying out regulation by planning mechanism. Regulation by planning mechanism and the developments of the market are the relations between the subjective and the objective. In order to make the subjective conform with the objective, planning should not be done behind closed doors. We should refer to the market situation so as to make our planning conform with the actual requirements of the market. On the other hand, regulation by planning mechanism cannot be subordinated to the market. On the contrary, the development of the market should be brought onto the track of planned control. Therefore, mastery of market developments and strengthening market statistical and analytical work have become a very important issue. In order to facilitate planning, we should work out a table of comprehensive financial equilibrium, a table of equilibrium between the production and supply of important goods and a table of equilibrium of finance, credit, foreign remittances and goods. Then we should work out a plan for the national economy on the basis of the table of equilibrium between the relations of various departments. We should pay special attention to the working out of the plan of the total social products and of the national income. This should be regarded as a powerful weapon for realizing comprehensive equilibrium of the national economy and for taking the whole situation into account and planning accordingly.

Readjustment of the national economy cannot be divorced from reform of the management system, consolidation of the enterprises and the overall improvement of the level of economic management. So long as we can break through tedious rules and regulations, break down the force of old habits and foster a practical and realistic attitude, we will be able to implement better the principle of readjusting, reforming, consolidating and improving, and accelerate the speed of the four modernizations.

## NATIONAL POLICY AND ISSUES

### LINKS BETWEEN THE FOUR MODERNIZATIONS, ENVIRONMENTAL PROTECTION ANALYZED

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[Article by Ma Shijun [7456 0013 7486], Liu Jingyi [0491 7234 1355], Tang Hongxiao [3282 7703 7197], and Wang Deming [3769 1795 6900]: "Modernization and Environmental Protection"]

[Text] Environmental problems for the most part, are caused by human life and by the rapid development of production activities, and they produce a great effect, in turn, on human life and the development of production. Being the inevitable outgrowth of the process of modernizing human society, they are problems requiring appropriate solutions.

#### 1. Relationship Between the Production Activities of Modern Human Society and the Natural Environment

##### (1) The Natural Ecological Balance and the Human Living Environment

The Structure and Function of the Natural Environment. The so-called environment means the space in which mankind and other living beings exist. This space is filled with numerous kinds of things of different properties, structure, and motion states. The number of these environmental components and the role they perform vis-a-vis man may be greatly different depending on the place, the time, and the extent of impact of man's activities.

The earth's surface is composed of the atmosphere, the hydrosphere, and the lithosphere (including the soil), and the area suited to the survival of living organisms is called the biosphere. The majority of organisms are concentrated in regions close to the atmosphere, bodies of water, or the land.

From the surface of the earth upward for several score kilometers, and on up to nearly 1,000 kilometers in the high altitudes, is the atmospheric covering composed of many different gases, which not only provides all living things with the carbon, hydrogen, oxygen, and nitrogen elements that they need, but also protects organisms on the surface of the earth from the danger of all sorts of cosmic rays from outer space, and prevents violent changes in the temperature of the earth's surface and the loss of its moisture. The hydrosphere includes the oceans, rivers, lakes and ponds, and underground water. The oceans account for 97 percent of the total quantity of water on earth, and cover more than 70 percent of the earth's

surface. They are the place where life originated, and they are also a storehouse of many materials. As a result of long years of weathering and erosion and the action of organisms, the surface lithosphere has gradually been turned into different kinds of soils.

Soils form the foundation for plant growth, providing plants with minerals, organic fertilizer and moisture. Under the illumination of sunlight, as a result of photosynthesis, all sorts of plants thrive and grow to produce forests, meadow-lands, and farmlands that provide for man and other creatures foodstuffs and needed ecological conditions. As a result of airflow, evaporation, and precipitation among the three spheres, an energy exchange and material cycle takes place, which imposes a definite degree of balance and regulatory function on the biosphere.

The cycling of matter and the flow of energy are major functions of the natural world. In addition to their role in inanimate processes, they frequently take in, play an intermediary role in, and are completed in various biological groups including plants, animals, and micro-organisms. The interplay between man or a biocenosis and the surrounding environment, which through a common flow of material and a flow of energy builds an organism-environment complex, is an ecological system. Forests, rivers, farmlands, and cities are all ecological systems of a different character. Every ecological system has its own localized and specialized structure, as well as its laws governing the cycling of material and the transformation of energy, whereby the mutual interactions and cause and effect relationships between that system and the environment are formed.

The biocenoses in the ecological system are shaped largely by the nature of the food chain. Numerous food chains interconnect to form ever more complex food networks. Not only are there changes in the types of the organic components that make up the food chain (or network), but increases and decreases take place in their numbers as well. In an association of specific quantities and types, the formation of relationships of interdependence and interaction makes the growth of the entire system develop in the direction of attaining optimum stability for the entire structure, which is attained through a balance between what is received and what is expended.

One striking property of the flow of materials through the food chain is the function of organisms in concentrating materials. Certain heavy metal elements or other toxic substances that the natural world is unable to decompose do not occur in high initial concentrations in the environment, but these are gradually enriched as they move through the food chain, and after entering the human body, they may be increased several hundred times or several million times, and become toxic to the organism.

In the course of their long period of evolution, the biosphere and the natural ecological system have established a relationship of intercoordination and compensation as well as a dynamic equilibrium of the natural world. Man is also a part of and has adapted to this balance. If any link changes within certain limits, the entire system undergoes appropriate adjustment to maintain the original dynamic equilibrium without impairment.

**Modern Man's Living Environment.** Man's activities constantly affect and change the natural environment. As society becomes more modern, the gap between its environment and the natural environment becomes greater. In densely crowded cities and industrial regions, in particular, the make-up and laws governing change of the environment are far removed from that of the natural environment. But in view of the needs of human life and of survival, as well as the extent to which physiological functions are capable of adapting to environmental changes, there are definite criteria and limits to change. The materials and the quantity of materials that the natural system is able to decompose is also limited. If the activities of modern man cause violent changes in the environment, or if the quantity of harmful substances dumped into the natural ecological system is excessive, exceeding the regulating capacity of the natural system, or exceeding the degree to which organisms or mankind can tolerate them, the ecological balance will be destroyed, and both man and other organisms will suffer injury.

Because the flow of energy and the flow of matter in the biosphere follows definite lines and patterns, and since all chemical elements combine, decompose, are re-used, and go on in an endless cycle according to definite laws, looked at in terms of the regulatory function of the entire biosphere, the natural environment and the human living environment are an inseparable totality. Anything that destroys the natural equilibrium or disturbs the normal functioning of the ecological system over a wide area must inevitably either directly or indirectly affect the human living environment.

Obviously, without the earth's natural environment, man could not survive. However, man is now disturbing and destroying this normal cyclical functioning as well as the natural ecological balance founded on it.

## (2) Utilization of Natural Resources and Environmental Protection

The natural environment is not only the place from which man draws the basic substances of life, it also provides man the foundation for raw materials for production. People have gradually come to recognize that the environment is a resource. On the basis of their properties, natural resources may be roughly divided into three kinds.

(1) Ecological resources (also termed fixed resources) such as the sun's radiation, atmospheric temperatures, and moisture. These are not subject to change by the will of man. These resources have an evident regionality, which if fully used, adapted to local conditions, and taken advantage of, may be used forever.

(2) Biological resources such as forests, grasslands, birds, animals, fishes, insects, and bacteria, as well as the soil. These resources are characterized by their renewability. If sensibly used, scientifically tended and nurtured, they will not only go on living endlessly, but they can also be bent to the will of man in planned enlargement of their propagation.

(3) Mineral resources including coal, petroleum, and ores. There is a limit to the reserves of this category of resources, which are substantially non-renewable. How to adopt comprehensive measures to derive fullest advantage from the potential

of all these materials is the key to rational utilization of this category of resources, and it is also a preventive measure in reducing industrial pollution by the "three wastes." [waste gas, waste water, and industrial residue]

The goals of environmental protection are, first, maintenance of a fine living environment for mankind, and second, preservation of the resources that man needs. These two objectives have to be carried out in coordination, complementing each other. Only if good care is taken of the forests, the grasslands and bodies of water can the biological resources continue to exist and use be made of their self-purifying role in regulating the environment. Because numerous countries misuse natural resources and recklessly discharge the "three wastes," they intensify the pollution and destruction of the environment. The fundamental reason is that people counterpose the use of natural resources and environmental protection. They are concerned solely with large-scale consumption of resources to satisfy current production quotas without regard for effects on the environment, ignoring the integral relationship of natural resources and environment. Even less are they concerned with the true benefits for society of such production methods and the bad consequences they may create. In other words, they lack an integrated conception of national economic development.

### (3) Ecological Laws and Economic Laws of Environmental Protection

As said in the foregoing, the natural ecological system is a self-sufficient functioning unit. Plants synthesize inorganic matter into organic matter to provide animals food to eat. The excreta and remains of animal and plant organisms are decomposed by micro-organisms for reabsorption by plants. This process is known as the metabolism of the ecological system. This metabolic process entails various fundamental ecological laws. These laws constantly harmonize the structure and function of the ecological system. The harmony of structure and function are prerequisites for the attainment of dynamic equilibrium. Equilibrium between input and output of matter and equilibrium in the exchange of gases provide the material foundation for the realization of dynamic equilibrium; thus the natural ecological system contains many parallels to socio-economic laws.

The equilibrium between investment and benefits, and net profit are basic principles of economics that must be taken into consideration. Economic principles contain two implications for environmental protection. One is the benefit versus the investment required to recover any given pollutant. Consideration of whether any given objective pays may be termed a general economic principle. A second is overall consideration of gains and losses in the case of a region or an entire integrated complex, using a multiplicity of actions to get the maximum effect from the intercorrelation of multiple actions. This may be termed a principle of macro-economics, and it is also a principle of ecological economics.

The solution of environmental protection problems on the basis of the principles of ecological economics requires not only control of individual matters, but also attention to comprehensive control and what overall gains and losses will be, overall consideration of foodstuffs, energy resources, population resources, population, and such major social problems of modern man. Their mutual dependence and mutual transformation must be explored in a search over a broad area for the

means of common solution. These are fundamental problems requiring joint study and solution by natural scientists and social scientists working together.

#### Interim Summary

The natural environment is the space on which modern man depends for his existence. Cosmic space is infinite, but the space suitable for the survival of man and other creatures is finite, and determined primarily by the physiological adaptability of man and other creatures. The relationship of dependence between man and his natural environment as well as the ecological balance of the natural world (specifically the biosphere) was formed millions of years ago. Underpinning this balance is a cycling of matter and an exchange of energy that operates according to laws. This movement of matter and energy is completed through colonies of organisms, including man. Interaction among organisms and the potential that is stored in the inorganic environment causes a certain degree of mutually reinforcing regulatory functions among each of the components of the natural ecological system, but this is limited and fragile. If mankind destroys these normal functions, he must inevitably transform the balanced relationship between mankind and the natural world, i.e., the structure of the space on which man relies for existence, thereby threatening the survival of man himself.

The environment is a resource on which man relies for survival. In terms of man's material life and the economic construction done, man-resources-environment are a totality. Natural resources are an integral part of the environment, and they play an important regulatory role on the environment. Destruction of resources means destruction of man's living environment. Natural resources, particularly biological resources, are inseparable from ecological resources and the local natural environment (including both what has existed in the past and the present). Man can apply and should apply modern scientific and technological achievements as well as his knowledge of natural laws to change the natural environment, but he must treat natural resources and environment as a totality. Only in this way can he both develop resources and protect the environment.

Environmental problems are at once an ecological problem and a socio-economic problem requiring combined application of both ecological laws and economic laws in order to achieve suitable balance in the development of the socio-economic and the ecological environment. In fact, there are numerous parallels in theory between economics and ecology. This combination points the way for the future modernized building of society, coordinating high speed economic development with environmental protection.

#### 2. Development of Environmental Work Abroad

##### (1) Several Stages in the Development of Environmental Pollution Worldwide

The problem of worldwide environmental pollution began with the industrial revolution in capitalist countries, and gradually grew during the early part of the 20th century. At that time some environmental problems appeared, as for example, in Great Britain where there was continuous smog, which aroused the concern of society.

During the 1950's, petroleum was added to coal as an energy source. The rapid development of organic chemical industries and automobile industries following two world wars made environmental problems take on a further widespread social character.

Since the 1950's, rapid industrial development has taken place in capitalist countries, and problems in environmental pollution have also grown to their highest point. Pollution of water, the atmosphere, and the soil has intensified; the effects of urban noise have become pronounced; and the ecology has been severely damaged. Not only the land, but the oceans and the upper altitudes have also been polluted.

By the 1960's the social effects of environmental pollution had become a worldwide problem, and people's concern about a future environmental crisis deepened daily.

### (3) New Trends in Environmental Protection Abroad

Following more than 10 years of vigorous efforts at control on the part of western capitalist countries, remarkable improvement in the environment occurred during the late 1970's, but environmental quality has yet to be fully restored. As economies continue to develop, new environmental problems continue to appear.

(1) Systems polluted by toxic substances in the environment that are difficult to degrade cannot be revived. Substances accumulated at the bottom of lakes, streams, river mouths, and bays become new secondary sources of pollution, which once accumulated in large amounts are difficult to reverse. Polluted soil and underground water may not be able to be restored for several decades or even in a hundred years or more.

(2) New pollutants constantly appear, and are strikingly revealed in chemical carcinogenic substances. New man-made synthetic chemicals appear yearly by the thousands making evaluation and control difficult. New varieties of agricultural pesticides constantly appear, and determination of their environmental degradability and their toxicity in intermediate products is difficult to figure out.

(3) Change of energy sources has led to new environmental problems. The petroleum crisis led to the revival of coal as an energy source, thereby causing new pollution, particularly problems with pollution of the atmosphere.

(4) The problem of nutrients in water. Even after large treatment plants are used to treat waste water, the water contains large quantities of nutrient nitrate and phosphate compounds. When the large amounts of washing compounds used in urban areas that are discharged into water are added to this, the enriched nutrient problem becomes pronounced.

(5) Future trends in the human environment are receiving more and more attention. The manifold increase in pollutants used in the natural environment may finally destroy the ecological balance of the biosphere for all of mankind, producing irreversible consequences. A matter much discussed abroad is the possibility that atmospheric pollution may bring on a change in the climate of the entire globe. Some people predict that by the year 2000 a crisis will occur in the world's environment.

Foreign countries are now in process of studying the interdependence and interaction of environment, resources, population, and development. The rapid growth of populations and economies has intensified the consumption and depletion of resources, and has led to the pollution and destruction of the environment, further reducing the utilization rate of resources.

Destruction of the natural ecological balance along with population pressure has also created degeneration of the agricultural environment. Improper industrial development, waste of resources, and pollution of the environment have impelled populations to flood into cities, creating further deterioration of modern cities. From this may be seen that continued economic growth requires interaction between the environment and development, and this needs to guide the formulation of development plans in all countries.

### 3. Various Problems in China's Environment

Pollution and damage to China's environment has already reached a fairly serious state, manifested particularly in the deterioration of urban environments, the pollution of rivers and lakes, and damage to the natural ecology. Prior to Liberation the layout of China's cities was irrational, and since Liberation cities have grown rapidly (43 cities with populations of more than 500,000, of which 15 have populations of more than 1 million). Because of population density, the irrational distribution of industries, and poor management, pollution of the air and the water of urban areas, as well as noise pollution of the environment have become worse. Looked at in terms of the process of growth of environmental pollution in industrially advanced countries, if we now lack full foresight and take no action, once environmental pollution reaches its high point, an environmental crisis will become unavoidable. History will pass sentence and we will pay a very high price indeed.

#### (1) Atmospheric pollution

Atmospheric pollution derives principally from the burning of combustible minerals such as coal, petroleum, and natural gas. The atmosphere contains numerous kinds of pollutants, principal of which are dust, sulfide compounds, nitrides, carbon monoxide, ozone, and hydrocarbons.

In terms of its source, atmospheric pollution is principally of the coal type or petroleum type, or a mixture of the two.

Coal type pollution. The sulfur dioxide that is a waste product from the burning of coal is oxidized in the atmosphere and combines with water vapor to form a sulfuric acid mist, which is highly irritating to the respiratory tract, and has a great effect on the health of the human body.

More than 70 percent of China's energy today derives from coal, and petroleum and natural gas account for 25 percent. The energy utilization rate is less than 30 percent. The pollution problem is compounded by the use in China's cities of stoves with short chimneys with an effective combustion rate of only somewhat more than 10 percent, the use of heaters of small tonnage and low efficiency for which the kindling points are seriously diffuse.

Meriting discussion is the problem of urban lung cancer. Of all occupational tumors, lung cancers are most numerous. It is believed that the 3,4-benzopyrene polycyclic aromatic hydrocarbons, which are discharged in the burning of coal or cooking of coal processes are carcinogenic. The presence of sulfur dioxide also has a role in promoting cancer. In the cities of Beijing and Shanghai, the incidence of lung cancer is close to that of large cities in foreign countries (20-odd cases per 100,000).

Petroleum type pollution. Under powerful ultra-violet radiation in the atmosphere, nitrogen dioxide can have a series of photochemical reactions with petroleum hydrocarbons and oxygen to produce powerful oxidizing agents such as ozone and peroxy-acetyl ethyl nitrite (abbreviated as PAN). Under certain climatic and geographic conditions, the photochemical smog produced by powerful oxidants can irritate the eyes and throat, corrode materials, damage crops, and reduce visibility.

Automobiles are not numerous in China at the present time; nevertheless, the production of photochemical smog is not to be taken lightly. As China's petrochemical industry develops, petrochemical smog can also develop in China.

Atmospheric pollution is general and serious throughout China, and national emphasis should be placed both on its prevention and control and on related research.

## (2) Water pollution

Water is a precious natural resource. The earth's fresh water amounts to less than 2.7 percent of the total supply of water, and the useable amount is less than 1 percent of the surface water found in streams and lakes, plus some of the underground water. Though China has abundant fresh water resources, the distribution of its water is uneven, and numerous places are lacking in water. Particularly serious is the discharge into the water supply without treatment of urban waste water and industrial waste water (in 1979, 78.8 million tons of waste water was discharged daily throughout the country), and an appreciable amount of pollution from the atmosphere and the soil finds its way into the water supply as well, vastly exceeding the self-purification capabilities of the water supply. Water quality has declined everywhere, especially the quality of water in urban areas.

The water environment and water pollution. The water environmental system includes the water supply stored in rivers and lakes, and underground; it also includes substances suspended in the water, bottom mud, and aquatic life. By water pollution we mean the discharge of pollutants into the water supply in excess of the water's natural purification abilities, causing a deterioration of water quality.

In China, pollution of the water supply is fairly universal. In a preliminary evaluation of 30 major streams and lakes using some major pollutants as pollution parameters, from the second Sungari River and the Liao He in the Northeast, to the Grand Canal and the Huangpu Jia in southern Jiangsu, to the Pearl River in South China, all were polluted. Though the Yangtze River has strong powers of dilution, the surface of the river was polluted in scores of places, and its tributary, the Xiang Jiang is seriously polluted. Nor has Dianchi, a lake in Yunnan, escaped.

China's water supply has been polluted by heavy metals, most notably mercury.

**Heavy Metal Pollution.** By heavy metal pollution we usually mean mercury, cadmium, lead, chromium, and arsenic, all of which are toxic elements. They are widely distributed throughout the natural world, and mining and smelting are the main sources for release into the environment of heavy metals. They cannot be degraded by micro-organisms in the water supply, but may give rise to processes of mutual transformation, dispersal, and concentration in various states, which is collectively known as the migration and transformation of metals.

Looked at in terms of toxicity and their danger to organisms and to man, small concentrations of heavy metals in water can produce toxic effects.

China mines and uses a fair amount of mercury and other heavy metals, which have seriously polluted some streams. Though pollution control in some plants has been initially effective, the migration, transformation, and effects of bottom mud containing mercury as well as problems of treating it is a problem still urgently awaiting study.

**Nutrient enrichment of water.** Plant nutrients such as nitrogen and phosphate are precious materials for the growth of agricultural crops, but an excess of nutrients enters the natural water supply to cause deterioration of its quality, impairment of development of the fishing industry, and damage to human health. Accompanying modern industrial and agricultural production, particularly development of the chemical fertilizer industry, has been a constant increase in nutrients, which get into the cycle of surface material. Only part of the chemical fertilizer spread on fields is absorbed by the crops. Under ordinary circumstances, only somewhat more than half the nitrogenous fertilizer is used by plants. Most of the nitrogenous materials are carried away into the underground water or the surface water by runoff. If proper use is not made of agricultural wastes such as the stalks and stems of plants and livestock manure, they too can become a source of nitrates in the water. Surveys done during the past several years show that a large quantity of the underground "fertile water" containing nitrogen in a nitric acid state in China derives largely from agricultural wastes and waste water. Large-scale use of washing compounds containing phosphates, have increased the phosphate content of waste water.

"Nutrient enrichment" of bodies of water is a phenomenon of old age denoting an increase in plant nutrients in the water leading to great proliferation of aquatic organisms such as algae, which consume the dissolved oxygen in water, with the result that fish are unable to survive in it. When nutrient enrichment occurs in ocean water, it is termed "red tide." Since more than 90 percent of urban waste water in China receives no treatment after being flushed away, water quality is seriously affected.

**Ocean pollution.** Guarding against ocean pollution is a major aspect of world environmental protection. The discharge of large quantities of pollutants from the land by rivers, and their accumulation in river mouths, bays, and harbors, and the pumping of petroleum and transportation of petroleum in the seas makes for easy pollution of the oceans. China has a long seacoast and abundant ocean

resources. Varying degrees of pollution by petroleum and heavy metals has occurred at river mouths in Dalian Bay and in the Yellow Sea and Bohai, where the red tide has also taken place to the definite impairment of aquatic products and the ecology and environment. Along with the continuous growth of coastal industry, transportation, and international trade, as well as extraction of petroleum from the ocean, guarding China's oceans against pollution must be given serious attention.

#### (3) Soil pollution

Soil resources constitute the major material foundation for agricultural production, and are also the material foundation on which mankind's survival depends. They are extremely valuable natural resources. The utilization of soil resources involves numerous environmental problems, such as increase in population and expansion of the cultivated area, destruction of ground cover and erosion, deterioration of grasslands and desertification of the soil, alkalinization, and soil pollution.

Soils are a complex system in the natural environment, which interact with the atmosphere, the hydrosphere, and the biosphere. In the course of getting resources and energy from the natural world for production activities, mankind either directly or indirectly through the atmosphere, the water, or organisms, discharges into the soil system the "three wastes" that result from mining, processing, distribution, or consumption. When the "three wastes" destroy the original equilibrium of the soil system, soil pollution results.

Accompanying the use of fertilizers, pesticides and irrigation in agricultural production is a build-up of pollutants in the soil, and this is a major way in which the soil is polluted. Second, the soil has always been a dumping ground for waste, garbage, and waste water. Furthermore, pollution of the soil by the migration or transformation of pollutants in the air or water is not new, as for example when the sulfur dioxide or nitrogen dioxide "dry rain" enters the soil making the soil acidic. Irrigation with polluted water can also pollute the soil.

Many of the pollutants in the soil are the same ones found in the air and water. Those found in large quantities over wide areas are organic synthetic pesticides and herbicides. Soils differ from place to place, and their pollutant load bearing capacity also differs. Thus research must be conducted by adapting general methods to local situations depending on circumstances.

In the processing of modernizing Chinese agriculture, the large-scale use of pesticides and chemical fertilizers, the consumption of energy in the mechanization of agriculture, the blossoming of medium and small-scale industry everywhere, the construction of medium and small-scale water conservancy projects, and the building of large chicken and pig farms will present a series of problems for protection of the agricultural environment.

#### (4) Noise pollution

Urban noise is yet another major modern environmental pollution. Study shows that 45 decibel noise can affect sleep; 65 decibel noise can affect work and study; and

serious noise can produce a series of physiological and psychological reactions, causing numerous illnesses. Noise at the 175 decibel level can cause death. Abroad, noise is regarded as one of the three great environmental pollutants and is strictly controlled. In letters received from the large cities of Beijing and Shanghai on the subject of environmental pollution, noise occupies first place, appearing in more than half the letters. Monitoring has shown noise to be above 80 decibels in the cities and suburbs of Beijing, Shanghai, Tianjin, Nanjing, and Hangzhou. In some streets and areas, nighttime noise levels are at the 70 decibel level. This problem has yet to be solved.

The main source of urban noise is traffic noise, namely driving, scraping, shaking, and horn sounds. Urban traffic noise in China is universally higher than in foreign countries. Beijing with only 100 and some thousand vehicles has higher traffic noise than Tokyo with more than 2 million vehicles. It has become a notoriously noisy city in the world. In China, solution to the traffic noise and industrial noise problems are urgent matters.

#### 4. Exploration of the Way To Deal With Environmental Protection in China

No complete scientific survey and analysis of overall environmental pollution in China has been done as yet, but on the basis of existing partial data and some prominent cases, China's environmental pollution and destruction of its ecological balance is presently quite serious. Disturbing is that this trend toward deterioration is still under way. Unless there is prompt coordination of the environment with development, further deterioration of the environment will become a stumbling block for realization of the four modernizations!

We believe the following work should be given attention in this regard:

- (1) Correct handling of the relationship between environment and development, with environmental work being made a part of the national economic plan.

Environmental problems are intimately related to a nation's energy structure, its use of resources, the growth of its population, the pattern of its industry and agriculture, and its building of its cities and countryside. National economic planning begins with doing a good job in overall balance, doing this in accordance with ecological laws and economic laws. Rapid development of the economy is positively not to be obtained at the cost of waste of resources and sacrifice of the environment.

The tragic road foreign countries have trod in "pollute first and clean up later," has provided us with a painful lesson. The state and all departments and regions should make a certain investment in environmental protection and environmental protection research. At the very outset of the four modernizations, we should give attention to no further pollution or the least possible amount of new pollution. In the placement of major projects, the pattern of industrial and agricultural production, and newly built enterprises, pollution control projects should be given comprehensive consideration and rational arrangements made to the greatest possible extent.

(2) Through a combination of numerous methods and numerous techniques, active control of pollution from existing enterprises.

China has several hundred thousand industries, with circumstances differing from one to another. In the majority of enterprises in which economic benefits can be obtained simultaneous with the elimination of pollution, we should give priority consideration to investment to effect control. In some in which a small investment can bring control, control should be effected without fail as well. We should assign an order of precedence to the others, distinguishing the order of importance and urgency, and giving emphasis on the basis of the seriousness of pollution damage to the sequential solution of problems over a period of time. In deciding projects for control, to the maximum extent possible economically effective new modern scientific and technical accomplishments should be used in combination with diversified methods for comprehensive efforts to turn the harmful into the useful and the useless into the valuable, making the waste products of this plant the raw materials of that plant. Simultaneously, full use should be made of the self-purifying role of the environment to eliminate pollution, as for example, the use of trees to purify the atmosphere and to lower noise, the construction of purification ponds and oxygenization ponds for waste water, the growing of aquatic vegetation to purify polluted water, and using waste materials to produce methane gas, all of which are methods requiring little investment for great benefits. Additionally, use should also be made of new theories such as systems theory, control theory, and ecological economics in combination with new techniques for enterprise management, technical innovation, technological improvements, project administration, multiple uses, and environmental self-purification, linking together the prevention of pollution and the rational development and use of energy and resources, and linking together control of urban pollution and urban planning and reform so that our scant available funds will be used where they are needed most in order to gradually improve the quality of China's environment.

(3) Vigorous development of scientific research with constant increase in the scientific standards for protecting the environment.

The human environment is distinctly regional and socialized in character, and environmental protection problems in individual countries have their own individual characteristics. How to combine a study of foreign experiences with the situation as it exists in China to draw up a technical program of environmental protection for China urgently requires vigorous scientific research of a strategic nature in order to provide scientific data for the formulation of policies. Though research into environmental science and technology in China has made a start within the past several years, the work is still rather scattered, and some research work of an overall or basic nature has not been started or is still in its infancy. Examples are policies regarding China's energy system and control of atmospheric pollution; the problem of construction of large-scale treatment facilities for waste water; an overall assessment of the use of industrial waste water in the irrigation of farmland; the basic make-up of China's pesticides and herbicides; an evaluation of the major areas of pollution and the environmental quality of water supplies in them; study of urban ecological systems, and forecasting of the country's environmental state, etc. Environmental science is a science that is strongly composite in nature, which has grown out of the struggle between man and his environment. It is

now developing in depth, and this tendency must be given serious attention. Its detection of the action and functional mechanics of pollutants both atomically and molecularly, and ability to check levels of pollution has increased from 1 part in 1 million to 1 part in 100 million and even 1 part in 1 trillion, and has also provided data in the form of overall assessments of different environments, forecasts, and scientific management from overall study of the dynamic laws of various environmental systems for communities, entire processes, regions, or the entire world.

Environmental science has also continuously permeated the social sciences. Since pollution and destruction of the environment is a waste of resources, the expenditures needed for prevention and prevention of the economic waste caused by waste of the environment requires diligent economic analysis, both for the present and the long term. Environmental economics and management may be said to be a major aspect of a combination of technical science, natural science, and social science, and a trend as well in the development of environmental science. In order to manage the environment scientifically and conscientiously assure implementation of the "Environmental Law," all sorts of environmental quality standards, and all sorts of standards for discharge of wastes must be formulated. The study of environmental management and economics has a weak foundation in China that is urgently in need of development.

Study of the aforementioned major problems require earliest unified planning, organization for implementation, and major breakthroughs.

Finally, a few suggestions are offered about the system for environmental research.

At the present time, China's environmental research work is done by the Chinese Academy of Sciences, institutions of higher learning, various organizations of the central government, and local environmental protection systems. Nationally, environmental science and technical, and monitoring personnel number 5,000, and the quantity and quality of both manpower and material resources and facilities is far from meeting the needs of the task. Furthermore the work is quite scattered and in urgent need of enhanced leadership and unified planning for a clear definition of the division of labor and coordination of each system, and the fullest use of individual advantages and individual characteristics. We recommend that the national environmental protection system lay particular emphasis on study of environmental legislation, policies, regulations, standards, monitoring, and management. Local environmental research units should emphasize study of local environmental problems; each industrial unit should emphasize study of prevention and control of pollution in its own industry. Institutions of higher learning and the Chinese Academy of Sciences should place special emphasis on basic environmental science, application of new techniques, and the study of major overall questions. Since the country's financial resources, material resources, and key scientific cadres are insufficient, trial use may be made of a contract system in environmental protection research. Planned emphasis should be placed on the selection for support of some basic research units for the early establishment of various specialized environmental research centers, and there is no need to set up research institutes echelon by echelon according to the administrative system, large areas, or provinces, and municipalities.

## ECONOMIC PLANNING

### PROS AND CONS OF BUREAUS SERVING AS PROFIT-SHARING UNITS

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 1981 pp 14-15, 29

[Article by Chen Lingshu [7115 0109 3219]: "Advantages and Disadvantages of Using Bureaus in Charge as Units in Profit Sharing"]

[Text] In Shanghai, two bureaus of special trades are trying out the system of profit sharing. Under this system, the Textile Administration Bureau, using the profit level of 1978—which was the highest in history—as the base, would retain 9.5 percent of the profits; for 5 years, beginning in 1979, it is to hand over 90.5 percent of its profits to the state, with the remaining portion to be retained each year. The Metallurgy Industry Bureau also used the profit level of 1978 as the base for working out the proportion of profits to be retained. For 5 years, beginning in 1979, 60 percent of the profits in excess of the 1978 level are to be handed over to the state, with the remaining 40 percent to be retained. The bureau in charge calculates the amount of profits to be retained from the total profits, and then works out the distribution among the company and the enterprises. (The Metallurgy Bureau does not have any company under it and therefore has direct contact with the enterprises.) This method of using the bureaus in charge as units in profit sharing has the following advantages:

First, greater national revenue can be guaranteed, along with increased income for both the bureaus and the enterprises. This method applies to all enterprises operating at either a profit or a loss that are under the jurisdiction of the bureau. In this way there will be no need for increased financial outlays to subsidize enterprises that operate at a loss. Furthermore, the proportion of sharing by the Textile Bureau is based on the highest level of profits and the guarantee of a progressive 8-percent increase in production, profits and export each year for 5 years, while the Metallurgy Bureau, whose production task has been affected by the current readjustment, has a higher proportion of 40 percent. Their retained profits can be increased only when there is an increase in total profits, which also would mean increased state revenue. In the first half of 1980, the profits handed over to the state by the textile and metallurgy bureaus showed an increase of 28 percent and 15.4 percent, respectively, over those of the same period in 1979, and their retained shares amounted to 120 million yuan and 57.46 million yuan, respectively. From this, we can see that by using the bureaus as units in profit sharing, the enterprises under their jurisdiction will gain greater material benefits, while the state will be wealthier because of its increased revenue.

Secondly, from the standpoint of the entire trade, it will be possible to take a comprehensive view of the conditions of technological equipment within the jurisdiction of the bureau, and then make unified arrangements for technical transformation for the entire trade. In the Metallurgy Bureau system, for example, the equipment for smelting ferrous metal belongs to the level of the 1950's, while that of steel rolling belongs to that of the 1960's. Productive capacity under the Textile Bureau is also uneven because of inadequacy of spinning. With bureaus as the units in profit sharing, it will be possible to exercise unified control and carry out technical transformation in a planned and systematic way, with priority for the urgent cases.

Thirdly, it will help bring into play the strongpoints of production. Shanghai No 3 Iron and Steel Plant, for example, was well known for its production of steel ribs, which not only are in short supply in the home market, but also are well received in Southeast Asian countries, or the world market. The enterprise had wanted to produce more of this commodity but could not obtain financial allocation for this purpose. Since the practice of profit sharing, which provides a new source of funds, went into effect, it is now possible for these enterprises to bring their strongpoints to bear.

Finally, it is possible to adopt some measures within the bureau's jurisdiction to even up the benefits and inconveniences caused by external factors among the enterprises. For example, to solve the problem of uneven profits among the enterprises caused by price disparities, the Textile Bureau adopted the method of internal adjustment of prices, or determination of the proportion of profits to be retained by the enterprises. This method can, to a certain extent, solve the problem of uneven benefits and inconveniences among the enterprises. The Shanghai No 11 Textile Mill and the Shanghai No 28 Textile Mill have about the same productive capacity, personnel, and equipment. Since one of them produces pure cotton yarn and the other produces dacron-cotton fabrics, and there was a price disparity between these two products, the profits of one was almost five times those of the other. After an internal adjustment of prices, the profit for one 20-count dacron-cotton bobbin was lowered from 1,607.90 yuan to 934.60 yuan, while the profit for one pure cotton bobbin was raised from 160.13 to 810.13 yuan. The difference in profits resulting from the disparity in prices was thus greatly reduced, and the profits shared can more accurately reflect the economic results of the enterprises' production and business operations.

However, in using the bureaus as units for profit sharing, there are the following problems which must be solved:

First, the funds obtained from the profits retained lack material backing. After collecting these funds, the bureau in charge should have the financial resources to tap potentials or to renovate or transform equipment through unified arrangements, and to undertake certain collective welfare projects within its jurisdiction in coordination with state efforts in order to catch up gradually with the long-overdue improvement in workers' living conditions. For example, the Textile Bureau planned to earn 1.28 billion yuan in the form of retained profits from 1979 to 1983. Out of this amount, it planned to use the production development fund of 5.2 million yuan for technical transformation of the trade, and a collective fund from the same source to build workers' dormitories totaling 1 million square

meters in 5 years. Yet in the absence of any corresponding reform in the material supply system, there is no guarantee that retained funds can be used to buy the required materials. According to the statement of some departments concerned in Shanghai, all technical measures among enterprises which have been included in the state capital construction plan will have an 80-percent guarantee of material supply, while other projects financed by special funds can have at most a 20-percent guarantee. There is no guarantee at all for projects undertaken by the enterprises themselves.

Furthermore, some new contradictions have cropped up in the distribution of retained profits among the bureau, the company, and the enterprises. After getting the retained profits, how is the bureau in charge to proceed with distributing them? If the entire amount is distributed among the enterprises, then the strongpoints of using bureaus as units in profit sharing cannot be brought into play. On the other hand, if large shares are kept by the bureau and the company, this will reduce the effect of expanded decisionmaking power for the enterprises. For example, the Textile Bureau plans to earn 13.5 billion yuan in profits over a period of 5 years, and at the rate of 9.5 percent it will be able to retain 1.28 billion yuan, out of which 512 million yuan (at a rate of 40 percent) will be allocated for developing production, 0.2 billion yuan will be kept by the bureau, and another 100 million yuan will be kept by the company, with the remaining 212 million yuan to be distributed among nearly 500 enterprises. Some enterprises may feel that their power of decisionmaking has not been expanded at all, and some small enterprises in particular may have something more to complain about. Since the portions kept by the bureau and the company for the transformation of the whole trade cannot benefit the small enterprises, some comrades of these enterprises are saying: "Before, we still had some small gains. Now even these small gains no longer exist. Only those at the upper levels are fattened, while those at the lower levels are even more undernourished."

Finally, some enterprises are reluctant to spend the money they earn from profit sharing, since it would be more advantageous for them to spend bank loans. According to existing rules and regulations, the funds retained from profits must be used in dealing with the "three wastes" and in comprehensive utilization. Then the profits earned as a result need not be handed over to the state for 5 years; however, profits earned by other means must be handed over. On the other hand, bank loans are repaid entirely from profits earned from construction projects, and the amount to be repaid is only a small portion of the total profit (9.5 percent for the Textile Bureau, for example). Therefore, enterprises are more willing to finance their technical measures with loans which can be used more freely. Furthermore, they can then wait and see how the unified arrangements with the use of funds kept by the bureau and the company will work out. That is why some enterprises are unwilling to spend their own share of retained profits, and prefer to borrow, if at all possible. For example, the No 2 Cotton Textile Mill accepted medium- and short-term loans totaling 156,000 yuan from the People's Bank even though it had 280,000 yuan on hand as funds for developing production.

Additional positive measures should be adopted to solve the above problems.

First, the use of bureaus in charge and the companies as units in profit sharing should be based on the expanded financial power of the basic-level enterprises, and

the shares of bureaus and companies should be just enough to even up the benefits and inconveniences caused by objective factors, but not too large. In this way, the bureau and the company will be able to eliminate the effects of objective factors and to adjust, with profits as a lever, the economic benefits among the enterprises within their jurisdiction. In this way, the bureau can play its role of regulation more effectively and at the same time avoid excessive retention of funds on its own part, which would dampen the enterprises' enthusiasm for increasing their production and income. On the other hand, if the bureau in charge only wants to share authority with those at the upper levels and to concentrate power over the lower levels in its own hands by keeping most of the retained profits for its own use, then the system of profit sharing will have nothing to do with the improvement of production and business management and will become meaningless. Will protection of the financial power of the basic-level enterprises handicap the unified arrangements of the bureau and the company for technical transformation throughout the system? The answer is no. The key lies in the collection of funds by economic means. For example, the enterprises can be encouraged to join a mutual aid investment organization formed by the bureau or the company, and the invested funds can be collected by the bureau or the company to be used for technical transformation throughout the system. The resulting economic benefits will later be distributed among the member enterprises. It is also possible to collect funds from the retained profits of the enterprises on a reimbursable basis. The collection of funds must be on a reimbursable basis if it is to be closely linked with the enterprises' benefits and to develop further the role of the system of profit sharing.

Secondly, reforms in planning material distribution should be speeded up, and the method of planning from higher to lower levels should be replaced by that of a planned balance at each level from the lowest upward. An overall balance in material supply should be achieved with no gaps remaining. At the same time, the overall balance between funds and materials should be further strengthened, and the funds and materials should be further strengthened, and the funds from profits retained by the enterprises should be included in this overall balance. There should be the regulative role of the market, under the guidance of the regulative role of planning, instead of a mechanical separation of these two roles according to the source of funds. This will ensure the unity of financial and material power and overcome the contradiction arising out of the lack of material backing for the financial power, derived from profit sharing, of the enterprises. On the other hand, it can also guard against the blind use of retained funds by the enterprises, which might upset the balance between state funds and materials.

Finally, as a financial policy, the enterprises should be encouraged to use their funds from retained profits for technical transformation. At least, the problem of the enterprises' preference of bank loans over the retained funds should be solved. Sichuan Province has carried out an experiment in investing the retained funds on technical transformation projects, and the profits thus derived need not be handed over to the state for 2 years. We can learn something from this experiment.

Provided the above-mentioned points are accomplished, the use of bureaus in charge as units in profit sharing can still arouse the enterprises' enthusiasm, ensure increased state revenue, and help promote readjustment of the national economy.

Therefore, under the present financial and economic conditions, the expansion of financial power for enterprises and profit sharing, with the bureaus in charge as units, is a good way to closely integrate restructuring with economic readjustment.

## INDUSTRY

### EXPERIENCES OF RESPONSIBILITY FOR PROFITS, LOSS REVIEWED

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 1981 pp 16-19

[Article by Tao Youzhi [7118 2589 0037] and Huang Laiji [7806 0171 4764]: "Conditions in the Experimentation of Responsibility for Profits and Losses at Shanghai Diesel Engine Plant"]

[Text] The Shanghai Diesel Engine Plant specializes in diesel engines and oil pump nozzles, and it has more than 9,000 workers and staff members. It has a branch plant, 7 production workshops, 2 auxiliary workshops, and 23 work sections. In 1979, it was designated by the State Economic Commission as one of the eight experimental units in the country for profit sharing. With the approval of the State Economic Commission in 1980, it was again designated as one of the two experimental units in "independent business accounting, taxation by the state, and responsibility for profits and losses." Despite the fact that the period of experiment has been brief, the plant has already achieved certain initial successes, and by the end of September 1980 the amount of economic benefits for the state had already reached 27,762,000 yuan, an increase of 284,000 yuan, or 1.03 percent over the same period in 1979. The income of the enterprise itself was 1.43 million yuan, or 69.6 percent more than in the same period in 1979. A good start has already been made in implementing the principle of more revenue for the state, more retained profits for the enterprise, and more income for individuals. Based on their previous experience, the broad masses of the plant's cadres held that, compared with profit sharing, the present experiment can more fully arouse the enthusiasm of the enterprise in production and more effectively improve the enterprise's business management. In short, it is a good way of showing concern for the interests of the state, the enterprise, and the workers and staff members.

#### I. Main Methods of "Independent Business Accounting, Taxation by the State, and Responsibility for Profits and Loss":

##### 1. The "five taxes and two fees" to be collected by the state from the enterprises:

(1) The industrial-commercial tax. This form of tax, though not new, is now different in substance and proportion. In the past, tax was based on total sales. This method of taxation not only added to production costs but also impeded the development of specialization and coordination. It has now been changed to taxation according to the amount of increased value. Regardless of the extent of coordination, all taxes are based on the amount of increased value. In other words,

taxes are levied on the increased value after deducting the portion for materials consumed in the process of production (including raw and semifinished materials, auxiliary materials, fuel, accessories purchased from outside, replacement parts for repairs, articles of low value which are easily worn out, and packing--a total of seven different items) from the proceeds of sales. The formula of calculation is as follows:

Tax Payable = Proceeds from sales x rate of increased value x appropriate tax rate.

$$\text{Rate of Increased Value} = 1 - \frac{\text{Cost of Production} + \text{raw material consumption} + \text{Production Expenses}}{\text{Proceeds from Sales}}$$

The rate of increase value for the Shanghai Diesel Engine Plant was 54.2 percent, based on the average rate of increased value in 1979.

At present, there are changes not only in the substance of the Industrial-Commercial Tax but also in the tax rate. Formerly, this tax was levied at a uniform rate of 5 percent; now it has been changed to 6 percent on farm machinery products and 10 percent for nonfarm machinery products, and the taxes have to be paid to the treasury twice a month, with an additional charge of 1 percent for each day of delay in payment.

(2) Income-regulation tax. There is a new form of tax. By means of this tax, the state can play a regulatory role over enterprises that make excessive profits. The calculation of this tax is based on the total income of the enterprise from its production. The income-regulation tax rate for the Shanghai Diesel Engine Plant was 7.5 percent, based on its 1979 profits. To strengthen the sense of economic responsibility and to arouse the enthusiasm of everyone to increase production and income, the state will not revise this tax rate in the next 5 years, even though there may be variations in the profit level. However, if the State General Bureau of Commodity Prices and the departments in charge adjust the prices of raw and semifinished materials, and if the financial departments adjust the tax rates and the rate of charges on the use of state funds to such an extent that the rate of fixed capital utilization fluctuates by 1 percent or more, then this tax rate will be readjusted the following year. If certain special circumstances have affected the profit level to such an extent that the profit rate will fluctuate by 0.5 percent or more for 6 months, the tax rate will be adjusted in the seventh month. The ratio of adjustment is 10:4--namely, for every rise or fall 1 percent in the fixed capital profit rate, the income-regulation tax rate will be readjusted by 0.4 percent. The formula for the computation is as follows:

$$\text{Percentage of rise or fall of fixed capital profit} = \frac{\text{Amount of profit affected by regulation of prices or rates of taxes or fees}}{\text{Fixed Capital}} \times 100\%$$

The increase or decrease in the rate of income-regulation rate is equal to the percentage of rise or fall in the fixed capital profit rate multiplied by 40 percent (calculated to the first digit after the decimal point. The second digit, if 4 or less, is disregarded; if 5 or more, it will be included in the preceding digit by the addition of 1.) The date for the payment of the income-regulation tax and the charge for overdue payments are the same as those for the industrial-commercial tax.

(3) Land and building tax. All buildings (belonging to fixed assets) used for either productive or nonproductive purposes, and regardless of the source of funds for their construction, are subject to tax. The land, no matter whether its original value is shown in the ledger, and whether it has been used for building houses or left vacant, is subject to tax as long as it belongs to an enterprise. The land tax is calculated according to the number of square meters. It is 0.72 yuan per annum in the city and 0.35 yuan in suburban counties. The administrative office of the Shanghai Diesel Engine Plant is located in the city, and therefore has to pay its land tax at the city rate.

Land taxes are paid twice a year, and the enterprises must pay them before 20 April and 20 October. There will be a 5-percent charge for each day of delay in payment. The Shanghai Diesel Engine Plant pays 1.07 million yuan in building-land taxes each year.

(4) Vehicle and ship license tax. All vehicles and ships used by the enterprises and running on public roads or in traffic zones with licenses issued by the Public Security Department are subject to tax. The Shanghai Diesel Engine Plant pays 22,000 yuan in such taxes each year.

(5) Income tax. This tax is based on the total sales proceeds of the enterprises each year, after deducting the industrial-commercial tax, the cost price, other transactions not connected with its business operation, and the income-regulation tax. The tax rate is 50 percent. After the enforcement of the income tax system, the workers and staff members' welfare fund, equivalent to 11 percent of the total payroll, should be appropriated from the profits after the payment of tax. This fund cannot be included in the cost price or charged as an extra business expense. With the exception of rewards given for the conservation of 10 different items of fuel, including coal, coke, electricity and gasoline, and rare metals, and the saving of raw and semifinished materials which, according to state regulations, can be paid out of the money saved and included in the cost price, all other bonuses or rewards should be paid out of after-tax profits. The repayment of capital and interest for all technical measures and special loans (except for capital construction loans), including the loans left unpaid by the end of 1979, should also be paid out of the profits after the payment of tax; such payment cannot be considered as tax deductible. The payment of fees for the use of fixed and circulating capital, the payment of various taxes, fees and charges for delay in the payment of taxes, or other fines should also be paid out of the profits remaining after payment of taxes, instead of being charged to the cost price or considered tax deductible.

Income taxes are paid twice a month. A 5-percent charge has to be paid for each day of delay in payment.

(6) The "two fees." This refers to the fees for the use of fixed and circulating capital. According to the "Tentative methods for payment of fees for the use of fixed assets by local state-operated industrial enterprises in Shanghai," the monthly rate of fees for the use of fixed capital is 8 per 1,000. The rate of fees will not be changed during the experimental period of tax reform. The fees for the use of fixed capital are based on the amount of fixed capital provided by the state. The formula of computation is:

Fees due for the use of fixed capital = "State Fund - Fixed Capital" remainder at the end of the previous month x rate of fees.

Once the fixed capital is determined, the "State Funds" will not be readjusted because of certain gains or losses to fixed capital or because some of it has been written off. The fixed capital resulting from new state appropriations should be added to the original "State Funds," while the fixed capital created by the enterprise with its own funds should not be added to the "State Funds," and therefore no fee need be paid for its use.

Fees for the use of circulating funds. According to the "Tentative methods for payment of fees for the use of circulating capital by state-operated industrial enterprises in Shanghai," the rate of fees for the use of circulating capital is 4 per 1,000 each month. This is based on the balance of circulating capital supplied by the state at the end of the previous month. The formula of calculation is:

Fees payable for use of circulation capital = "State-Funds - circulating capital" remainder x rate of fees.

Fees for the use of fixed capital and circulating capital should be paid in one payment before the 25th day of the month, and a 0.1-percent charge has to be paid for each day of delay. Presently, the Shanghai Diesel Engine Plant has to pay approximately 586,000 yuan for the use of fixed capital and 136,000 yuan for the use of circulating capital each month.

## 2. The enterprise should make good use of the retained funds.

Under present conditions in the experiment by the Shanghai Diesel Engine Plant, the enterprises can gain approximately 18 percent from the newly added value of its assets. How to make good and flexible use of these funds is a very important matter, because it concerns the correct handling of the relationships between production and livelihood, between long-range and immediate benefits, and between overall and partial gains.

After consultation between the plant and higher authorities, the allocation of the enterprise's funds is as follows: 41 percent as a fund for developing production, 32 percent as a welfare fund, and 27 percent as a bonus fund. This method of allocation is different from what it was when the system of profit sharing was used. Formerly, 38 percent was for developing production, 36 percent for welfare, and 26 percent for a bonus fund.

## 3. To make the experiment of responsibility for profits and losses a success, cadres and the masses should first be mobilized.

In addition to explaining the significance of responsibility for profits and losses and the substance and requirements of state taxes, the plant further stressed three points in order that the cadres and workers could be fully aware of the relationship between business results and the benefits of the enterprise when the enterprise has assumed responsibility for its own profits and losses. These three points were: for increased production, the enterprise will gain 30 percent of the

benefits; for lowering productive costs, it will gain 50 percent of the benefits; and for savings in the fees for the use of circulating and fixed capital, it will gain 100 percent of the benefits. The cadres and workers will then be able to see clearly the economic benefits for the enterprise and will carry out the required measures with a clear orientation. Only thus can the whole plant be mobilized in order to make the system of responsibility for profits and losses a success.

## II. Results of the Experiment of Responsibility for Profits and Losses

The Shanghai Diesel Engine Plant's experimental period in assuming responsibility for its own profits and losses has not been long. However, since it conforms to the objective laws of economic management with economic means, it has already shown many advantages:

### 1. Promotion of production.

In 1980, according to assignments from the state, [the plant] had planned to produce 12,800 sets of diesel engines, but only 9,000 sets were produced. What to do when there is not enough assignment? In the past, the only way was "to prepare meals when there is rice and to stop cooking when there is none." Now, instead of waiting for customers to call at the door, the plant constantly dispatches people to conduct investigations everywhere and to visit the customers in order to keep itself informed of the quality of its products and of market conditions, on the basis of which it can continue to increase the production of goods in demand. In 1980, it actually produced 14,500 sets, which was 13.2 percent above the original plan. Such a large increase was very rare in the past.

With this expanded power, the enterprise is now in possession of not only the "power" but also the "money" to develop production. Based on the benefits gained after enforcement of the taxation system, the plant has worked out its plans for developing production from 1980 to 1984. In these 5 years, it plans to appropriate from profits 27-30 million yuan (equivalent to 50 percent of the net value of the plant's fixed assets) for technical innovation. According to the specific plan, the first 3 years will mainly be the stage of "readjustment and transformation," and the last 2 years will be the stage of "promotion and development." After readjustment and transformation, the planned number of diesel engines to be produced will be 15,000 sets in 1982, an increase of 16.91 percent over that of 1979; and 20,000 sets in 1984, an increase of 56 percent over the 1979 figure. The 26 different models and fuel systems of 135 diesel engines should all become excellent products within 2 years, and the other 40 or more remodeled products should become excellent products in the next 3 years. After assuming the responsibility for its own profits and losses, the enterprise has become the master of its own destiny and can exercise its own initiative in developing production.

### 2. Improvement of enterprise management.

The most prominent feature in the system of responsibility for profits and losses is that business results will be closely linked with the benefits of the enterprises. To improve its economic results, the Shanghai Diesel Engine Plant mainly paid attention to two links--namely, all-round economic accounting and all-round quality control. Through all-round economic accounting, it could increase the

capital profit margin and create even more value; through all-round quality control, it could improve the quality of products and create even more use value.

On the basis of "independent business accounting and responsibility for profits and losses," the plant saw to it that the various economic and technical standards set by the state were to be met at every workshop and work team, and there would be rewards or punishment according to satisfactory or unsatisfactory business results. All-round economic accounting enables the cadres and workers to become economy-conscious. For example, the plant management formerly joined the "three competitions," namely, competitions for investments, equipment and funds; now these "three competitions" are replaced by the "three accountings," meaning the accounting of the economic results of these three aspects. They said: "If we fail to make a 20-percent profit on our fixed assets and an 11-percent profit on our circulating capital, then we don't want any equipment or funds, even if they are delivered to our doors." The workshops and work teams have also replaced the former "three requirements" with "three handovers" and have taken the initiative to hand over to the higher levels their surplus manpower, surplus equipment, and surplus raw materials. Since everyone has become economy-conscious, the amount of circulating funds by the end of August 1980 was reduced by 2.67 million yuan below those of the same period in 1979, and more than 250 sets of equipment were handed over to the higher levels by the workshops.

The experiment in responsibility for profits and losses has given a strong impetus to all-round quality control. The plant organized 295 special task groups for the solution of quality problems, and by the end of July 1980 the rate of rejects had dropped from 1.44 percent in 1979 to 1.25 percent, while the rate of perfect products had risen from 88 percent to 99 percent. The 135 diesel engines won a silver shield prize.

### 3. National revenue on a firm foundation of increased and promptly collected revenue.

In the past, taxes were the only sure item of national revenue from enterprises, while profits to be handed over to the state had to depend on the results of business operations. In other words, if the enterprise produced good business results and made more profit, state would receive less or nothing, or even would have to subsidize the enterprise. Now, of the "five taxes and two fees" collected by the state from the enterprises, only income tax can be affected by their business results, while all the rest are "guaranteed under any circumstance." Thus state revenue has a firm foundation, because all taxes and fees are promptly paid. According to the experiment in Shanghai Diesel Engine Plant, the combined amount of the "four taxes and two fees" alone is equivalent to about 64 percent of the total profits earned by the enterprise. Since its business is now better than before, state revenue from this enterprise's income tax is much more reliable.

Ever since the enterprise assumed responsibility for its own profits and losses, state revenue has increased. The Shanghai Diesel Engine Plant has so far operated under three different forms: financial allocation, profit sharing, and responsibility for its own profits and losses. Provided the scope of its production has remained basically the same, the state's revenues from this plant have been as follows: 38.2 million yuan in 1978 when the plant operated with enterprise funds;

38.31 million yuan in 1979 when the plant practiced profit sharing; and 27,762,000 yuan in the first 9 months of 1980--an increase of 1.03 percent over the same period in 1979--when the plant assumed responsibility for its own profits and losses. Judging from the plans for development in 1980-84, we can see that if the state will invest 9,153,900 yuan in the plant (including 4,000,500 yuan to be earmarked for scientific research in 2 years and 5,153,400 yuan as investments for 5 years) to support its technical transformation, then in the first 3 years the state will receive 124,244,000 yuan, some 10,502,000 yuan more than prior to the technical transformation, while in the last 2 years the state will receive another 93,605,800 yuan, some 17,777,800 yuan more than the amount received prior to the technical transformation. Thus, in 5 years the state will receive a total of 28,279,800 yuan, or four and a half times its investments. [all figures as published] The theory of increased state revenue will be even more obvious.

The enterprise will have greater benefits, too. According to the plant's calculations, its gain in the first half of 1980 was 280,000 yuan more than that in the same period of 1979, and its anticipated gains for the whole year may be increased by more than 400,000 yuan, a 12.3-percent increase over that of 1979.

### III. Several Problems To Be Studied and Solved in the Experiment of Responsibility for Profits and Losses

#### 1. The question of integration between responsibility for profits and losses and the all-round expansion of power.

The plant believes that the present method of experiment is a big step forward, compared with the former method of profit sharing. However, there should be due expansion of the decisionmaking powers of the enterprise. If the enterprise can make its own decision on the number of workers and staff members to be employed, their wages, promotion and bonus, the state will only have to make the necessary laws, such as labor laws and wage laws. This will further arouse the enthusiasm of the enterprise in production and strengthen its sense of economic responsibility.

#### 2. The question of proportion of funds to be retained by the enterprise.

The plant believes that the proportion of funds to be retained should not be rigidly fixed, and that the enterprise should have its own method of exercising its rights of ownership and disposition of the retained funds, while the departments in charge should only reserve their right of examination and comment. If the arrangement made by the enterprise for the use of its production development funds, welfare funds, and bonus funds are rational, the departments in charge should give their approval; if they are irrational, then it would be better for the departments in charge to make certain readjustments.

#### 3. The question of disposal of fixed assets unwanted by the enterprise.

When the enterprise has assumed responsibility for its own profits and losses, the state has to collect fees for the use of fixed capital for the purpose of inducing the enterprise to use its equipment judiciously, to increase its equipment utilization, and to reduce the amount of idle equipment. However, a new problem has cropped up in the Shanghai Diesel Engine Plant. In order to reduce expenses and

improve economic results, many workshops are handing over their excess equipment to the management. Up to now, 250 sets of equipment have been turned in by the workshops. The ordinary equipment has been transferred to the fraternal plants by the enterprise, but for some large equipment which the enterprise cannot dispose of, and on which the department in charge takes no action, the fees for the use of fixed capital still have to be paid regularly. The plant believes that this is unreasonable. It feels that if the department in charge cannot decide on the disposal of the equipment, it might be practical for it to be preserved for storage. The enterprise will be responsible for its preservation but should be exempted from the payment of fees for its use. Unless there is some solution to this problem, it may affect the enthusiasm of the enterprise to economize in the use of fixed assets.

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## CONSTRUCTION

### 'JINGJI GUANLI' ON CAPITAL CONSTRUCTION POLICY

HK030950 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 2, 15 Feb 81  
pp 33-36

[Article by Li Mengbai [2621 1125 4101] and Lin Senmu [2651 2773 2606]: "How To Understand the Policy of Concentrating Forces on a War of Annihilation in Capital Construction--Further Discussing the Fact That Fighting Tactics Cannot Be Applied to Capital Construction Work"]

[Text] The policy of concentrating forces on a war of annihilation has for many years been the policy for capital construction. Some achievements have been made in implementing this policy in practical work but many problems have also been discovered. The problem of whether or not we should implement the policy of concentrating our forces on a war of annihilation in capital construction and whether or not we can use the method of concentrating our forces on a war of annihilation in capital construction attracts people's attention and they have different understandings of the question. Clarifying this problem is of significance in distinguishing between right and wrong in ideology and theory and in guiding practical work.

#### I. The Policy of Concentrating Forces on a War of Annihilation in Capital Construction Is a Remedial Policy

The idea and practice of concentrating forces on a war of annihilation in capital construction first appeared in 1958. In the beginning, it was put forward as a way to arrange construction work in order of importance and urgency. It is normal to arrange the order of the execution of construction projects for each year because construction materials and equipment are not produced at the same time and some of them can be supplied earlier while others later. The forces used in construction work also have to be properly planned in order to avoid idleness and frequent rush work. Therefore, the starting dates of construction items should be staggered. Some items should be started first while others should be started later in order to obtain a balanced execution. This has direct significance in insuring an appropriate work schedule and in obtaining good economic results. However, the fact that special importance was attached to arranging construction work sequentially in 1958 and an imposing name was given to it was not without a reason. In that year, the economic situation was very favorable. Some comrades became hot-headed. Proceeding from subjective desires, they blindly sought high

speed in economic development and wanted to catch up with and surpass highly developed capitalist countries within a short period of time. Consequently, a series of impracticable high targets and impetuous demands were put forward irrespective of the financial and material possibilities at that time. The scale of capital construction was blindly expanded and the number of large- and medium-size construction projects was abruptly increased from 700 to 1,800. The total amount of investment was twice that of the previous year. The enormous scale of construction went beyond the limits of financial, material and manpower supplied by the state. The capital construction front line was too long and there were too many projects, so a limited amount of finances, materials and manpower was used in a dispersed way. Consequently, "the rice for three was shared by five," and none of them had enough, so none of the projects could be completed. Some comrades strived hard to take some remedial measures in the process of organizing the execution of those plans that being the only way out by means of arranging the projects sequentially to reduce the scale, shorten the front line and correct mistakes in making policies for the macroeconomy. This method of arranging the projects sequentially required that on the basis of importance and urgency, construction was to be carried out in stages and in groups with concentrated financial, material and manpower resources. One project was completed before starting another and one group was completed before starting another. Some comrades called this method "shortening the front line, and concentrating the army forces on a war of annihilation." This method of arranging the projects sequentially was no longer or not merely the sequential arrangement of construction work but the redistribution of construction projects so that the dispersed (dispersion caused by having too many projects in the plans) finances, materials and manpower could be concentrated on some important and urgent items to insure their completion, while those less important and less urgent ones were temporarily suspended to be resumed when conditions were ready. As was pointed out by Comrade Chen Yun, director of the state's Capital Construction Committee at that time: "There are too many construction projects for us to supply them all with materials. If we do not arrange them sequentially, everybody will rush for materials and everybody will try to start construction first. Nothing will be done in the end. So we must have them arranged sequentially." "In the arrangement, some will be at the front, others at the back; some will be important, others will not. To achieve something, we must abandon something else... we must shorten the front line and concentrate superior forces for a war of annihilation. We should oppose the way of stationing forces at different locations and dispersing the forces to fight a war of attrition."

It is clear that the method of concentrating forces on a war of annihilation in capital construction was put forward because the strategic plan (in the first place, the scale of construction) for capital construction was contrary to the objective laws, which situation landed us in a passive position. Great attempts were made in tactical planning and in the process of organizing execution plans in capital construction in order to remedy the situation to gain the initiative, and to obtain better results in some of the investments. This was a valuable attempt and it manifested the difficulty experienced by many comrades because they "had to act against their will." That was why later, in many documents, reports and speeches made by leading comrades concerning capital construction, the method of concentrating forces on a war of annihilation and shortening front line of capital construction were always mentioned in the same breath.

Starting in 1970, the scale of capital construction again underwent vicious expansion. The problem of a long front line and too many projects again became conspicuous. The method of concentrating forces on a war of annihilation was again put forth and it was considered an important policy in capital construction. It was stressed as an application of Comrade Mao Zedong's military thinking to economic construction. In 1973, with the approval of the State Council, the State Construction Committee held working conferences separately with the country's major regions. The tasks of such conferences were very clear. They were to study how to shorten the front line in capital construction and how to further implement the policy of concentrating forces on a war of annihilation in the work of capital construction. Chief responsible members of the State Construction Committee repeatedly stated in speeches that the policy of concentrating forces on a war of annihilation was a positive policy. It was to shorten the front line in capital construction. Some projects which did not have the required conditions or whose products were not urgently needed were either suspended or slowed down in order to insure the completion of a group. Much work was done to this end so that finances, materials and manpower could be concentrated on projects being put immediately into operation, on items being completed to make set, and on expanding projects. Since 1973, the construction committees at different levels have been working in this way. After the annual plan for capital construction is made, the construction committees at different levels have to arrange the projects in sequential order and decide which projects are key and which should be immediately put into operation so that finances, materials and manpower could be concentrated on them to insure their completion and operation according to schedule and to obtain better results from investments. Viewed from this angle, the implementation of the policy of concentrating forces on a war of annihilation is effective.

## II. The Positive Significance and Limitations of the Policy of Concentrating Forces on a War of Annihilation

Some comrades do not admit the positive significance of this policy. On the contrary, they reckon that many problems which occurred in economic construction were all caused by the policy of concentrating forces on a war of annihilation. They say, for example, that this policy "damages the overall balance in the national economy," "disturbs the order in production," and so on. This viewpoint is not in conformity with historical facts. It has put the cart before the horse and it is wrong. In the past 20 years, the phenomena of our national economy not being in proportion and chaos in production order have actually existed, but they are not a result of implementing the policy of concentrating forces on a war of annihilation. On the contrary, they are reasons for implementing such a policy. It was exactly because only high quotas were stressed, overall balance was ignored, the scale of construction planned and arranged was too large and the projects too numerous that the national economy was imbalanced. In carrying out the plans, people were forced to try by every means to adjust the scale, shorten the front line and stress concentrating forces on a war of annihilation. Since 1958, each time a vicious expansion occurred in the scale of the capital construction, the concentration of forces on a war of annihilation would surely be stressed in capital construction work. This was actually caused by the situation. At present, we are implementing the policy of "readjusting, restructuring,

consolidating and improving" the national economy and need to put in order projects under construction and reduce the scale of construction. It is necessary to stress once more that we should concentrate forces on a war of annihilation in capital construction. The communique of the 3d Plenary Session of the 11th party congress pointed out: "Capital construction must be carried out enthusiastically and step by step in accordance with our capability. We should concentrate forces on a war of annihilation and should not start everything at the same time. Otherwise there will be idleness and waste." This is perfectly correct. The policy of concentrating forces on a war of annihilation not only played a positive role in the past but will continue to play a positive role during the period of readjusting the national economy in the coming years.

Some comrades put the blame for a long front line in capital construction and poor results in investment on improper implementation of the policy of concentrating forces on a war of annihilation. It seems that if such a policy had been implemented seriously, the situation would have been changed radically. This exaggerates the role it plays. The situation of having a "long (a long front line), dispersed (the forces dispersed), disorderly (disorderly in management), poor (poor results)" is not caused by concentrating forces on a war of annihilation, nor can it be completely changed by implementing this policy. Similarly, we cannot talk about concentrating forces on a war of annihilation year after year while we actually disperse our forces in a war of attrition year after year, and then say that this policy is wrong. It is difficult in the process of putting the plans into practice to solve completely many serious problems such as faults and miscalculations in strategic plans in capital construction including the scale being too large, the projects too numerous, the direction of investment incorrect, the layouts irrational, and so on. Some remedies can be made, such as insuring the completion of key projects and projects to be put into operation immediately, which may increase the results of investment in a few projects to a certain extent. But viewed from the overall situation, they affect the macroeconomic results very little. Therefore, the policy of concentrating forces on a war of annihilation has many limitations in improving the work of the whole capital construction and in increasing the results of investment.

Some comrades reckon that in making plans for capital construction, the policy of concentrating forces on a war of annihilation should also be implemented. This, in fact, gives the policy another meaning, that is, overall balance should be achieved in making plans and key points should be made to stand out in arranging construction projects, or they reckon that overall balance is the prerequisite for concentrating forces on a war of annihilation. For a long time, overall balance has not been duly considered in planning. There is often a shortage of funds and materials, which causes difficulty in capital construction work. In order to change this passive situation completely, we must first of all straighten out the guiding ideas in economic planning, implement seriously the policy of doing what we are capable of and arrange the general scale of construction according to objective conditions such as availability of finances, materials and manpower. This belongs to the strategic problem of the macroeconomy and is not included in or resolved by the tactical policy of concentrating forces on a war of annihilation. Moreover, if overall balance is achieved in planning, and the scale of capital construction is suited to finances, materials and manpower

which the state is capable of providing, what then remains to be done in the process of carrying out the plans is only to arrange the projects sequentially and to strengthen the work of organization and coordination as well as supervision and inspection. There is no need to use the method of concentrating forces on a war of annihilation.

### III. Fighting Tactics Cannot Be Used in Capital Construction

In many articles in the past, the concentration of forces on a war of annihilation in capital construction was looked upon as the same thing as the concentration of superior forces to annihilate the enemy one after another in revolutionary war. There were historical and social causes for such a phenomenon.

Concentrating forces on a war of annihilation was explicitly put forward as the policy for capital construction work in 1973. At that time, the "gang of four" was running amuck and the "left" trend of thought was spreading unchecked. Only necessity was mentioned; possibility was not mentioned. Only "positive balance" was permitted; overall balance was not permitted. Projects could only be added and could not be canceled. They even said that "starting a project was a problem of method while stopping it was a problem of line." Under such a political situation, nothing less than a "supreme instruction" could prove that the method of concentrating forces to insure the completion of a group of construction projects and of canceling another group of construction projects was correct, and in conformity with Mao Zedong Thought. Without such proof, how could people act in a diametrically opposite way by shortening the front line and canceling a group of construction projects? On the other hand, the problem of understanding and implementing the concentration of forces on a war of annihilation in a military sense also existed among managing cadres and in managing capital construction work. Construction was carried out according to the principle of "pitting ten against one," and "the tactic of a sea of people" was practiced. An example was "the people's war" fought in the construction of the Jiao (Jiaozu) Zhi (Zhijiang) railway. Tens of thousands of militiamen joined in the work. There were two men for each square meter on the average. Such a phenomenon could be found nearly everywhere, and more and more key items adopted "the tactic of a sea of people." In reality, it was a kind of distortion to think that "the tactic of a sea of people" or similar methods was the implementation of the policy of concentrating forces on a war of annihilation. Besides, the waste of manpower, material and financial resources was so great on a certain part (of a certain project), we were actually engaged in a war of attrition if viewed from the whole. No wonder some comrades have all along taken a critical and negative attitude toward concentrating forces on a war of annihilation. Therefore, if we want to have a correct understanding of the policy of concentrating forces on a war of annihilation in capital construction, we must not only be clear about its meaning and its function but we must also be able to distinguish it from concentrating superior forces on a war of annihilation in the military, to distinguish economic work from war, and to make clear that fighting tactics cannot be used in capital construction.

Using different methods to solve different contradictions is a principle which Marxist-Leninists must follow strictly. War and capital construction are two

completely different things. War belongs to the realm of politics. The aim of a war is to preserve ourselves and to annihilate the enemy. Capital construction belongs to the realm of economics. The aim of economics is the production and reproduction of new fixed assets. The former is to destroy but the latter is to construct. The nature of the contradiction to be solved by each of them is completely different and each kind of contradiction has its own objective laws. Generally speaking, the policy and methods for solving these contradictions are also different.

First, concentrating superior forces to defeat a smaller number of forces and maintaining a balance for proportional development: The policy of concentrating superior forces on a war of annihilation in a revolutionary war requires concentrating six times, five times, four times or at least three times more forces than the enemy. This is because both sides of a war or a battle are groups of armed living people and it is a balance of strength between them. Besides, each party keeps its own secrets. This is quite different from handling static objects and daily routine. The best way to win a war is to pit a greater number against a smaller one and to fight and win with an overwhelming majority. Therefore, in a war, it is necessary to upset the balance and to strive for superiority. It is different in the economy. The production and construction of any society all objectively require the proportionate distribution of labor (material labor and living labor) and proportionate development. Let us take capital construction as an example. It first requires acting according to one's capability. The scale of capital construction must be balanced with the financial, material and manpower resources available. We cannot "pit one against ten" strategically or "pit ten against one" tactically. We can only "pit one against one," act according to our capability and do our best.

Similarly, we cannot concentrate superior forces according to the principle of "pitting ten to one" in individual construction projects, because we are disposing of static objects in capital construction and the funds, materials and manpower needed for each construction project can be calculated according to quotas. If our plans have been balanced in an overall way, the funds, materials and manpower needed by construction projects included in them should be guaranteed. In carrying out a plan, if we organize properly the construction and erection work according to the requirements in time, quality and quantity, the projects can then be completed and put into operation as scheduled. If we concentrate financial, material and manpower resources in excess of the actual needs of the projects, there is bound to be overstocking and waste.

Second, a war involving quick decisions and the optimum (rational) time limit for a project: The aim of concentrating superior forces is to be able to make quick decisions, that is, to annihilate the enemy within the shortest possible time. This requirement of war was once applied to economic construction and was manifested in the idea of "the theory of quick achievements" which considered high speed as the core of the general line for socialist construction. Everything was subordinated to high speed. In a construction project, "an earlier completion and operation" was one-sidedly stressed. This was especially true of a project involving leaders at different levels. Very often, because of a certain requirement of "the will of the senior officials," speed was necessary. The

date for putting the project into operation was first fixed and the progress on the project was scheduled backwards. In this way, there was no time for preparation and there was not enough time even for the progress of normal construction. So the basic sequence in capital construction was discarded. Methods such as "high-speed construction," "doing things several steps at the same time," "finishing many stages within a year," and others emerged one after another. It seemed the higher the construction speed was, the more revolutionary the project became, and the shorter the time limit for it was, the more advanced it was.

Of course, the speed of the economic development is very important because it reflects the economic results. But it does not mean the higher the speed is the better the economic results are. Speed and proportion are a unity. Only when economic results are increasing proportionately can speed be rational. Therefore, we cannot merely stress high speed but should attain the best speed. For a construction project we should also attain the best (rational) time limit and not the shortest time limit. From the standpoint of necessity, we should try to have the fastest construction progress and the shortest time limit. But as to how fast or how short it actually can be, we must take into account technical possibilities and reliability as well as economic rationality and advantages.

Third, striving for class victory and paying attention to economic results: War is the highest form of class struggle. It requires annihilating the enemy and preserving ourselves. If necessary, we do not hesitate to make a substantial sacrifice to win a class victory. So war can only settle a political account and it should not, and cannot, involve economic accounting.

Capital construction is different from war because it is a kind of productive activity. Any kind of productive activity must have economic accounting and must pay attention to economic results. In a certain period, the speed, the scale of construction, the direction of investment, the time limit for a project should be determined by good or bad economic results. Whether our policies and plans are correct or not is also judged by good or bad economic results. In making macroeconomic policy decisions we must, on the basis of objective factors which affect the scale of construction and economic structural patterns which are suitable for our country, calculate in advance the total amount of investment, the ratio of distribution among departments and the layouts in different localities, estimate the possible economic results, such as the rate of the formation of fixed assets, the cycle of construction, the cost of the newly increased productive capability, the time for return on investment, the investment coefficient, and so on, and make an analysis of influence on the environment. Before making a decision on a construction project, we must first study its feasibility, study the technical and economic results of the construction project, including estimation of construction, cost, calculate the factory's production costs, its profit ratio and the time for return on investment, and carry out careful investigation and comparisons among different schemes. Only after this can we decide whether or not such an item should be constructed or not and choose the best construction scheme.

#### IV. Summary

First, concentrating forces on a war of annihilation in capital construction and concentrating superior forces to annihilate the enemy forces one after another in military affairs are two fundamentally different policies both in their implied or extended meanings.

Second, when the front line in capital construction is too long and the scale too large, the policy of concentrating forces on a war of annihilation is a remedial one and plays a positive role in readjusting the scale and shortening the front line in the process of organizing the implementation of plans in capital construction.

Third, the policy of concentrating forces on a war of annihilation cannot be a permanent policy for capital construction. Acting according to one's capability is the permanent and important policy for capital construction. Only when acting according to one's capability is really put into practice can we shake off the passive situation in capital construction and fulfill our tasks with greater, faster, better and more economic results.

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## DOMESTIC TRADE

### MAINLAND-TAIWAN TRADE REPORTEDLY FLOURISHING

Shanghai SHIJIE JINGJI DAOBAO in Chinese 19 Jan 81 p 4

[Article by SHIJIE JINGJI DAOBAO correspondent: "Trade Between Mainland Motherland and Taiwan Province Flourishing--Volume of Transactions Increased Greatly in 1980"]

[Text] According to information from Hong Kong, trade between our mainland and our Taiwan Province through Hong Kong has been flourishing, with a large increase in the volume of transactions in 1980. Statistics have revealed that in the first 9 months of 1980, the total value of products from Taiwan Province to the mainland through Hong Kong amounted to 284.94 million yuan, a 44-percent increase over the same period in the previous year. The total value of products from the mainland to Taiwan Province through Hong Kong amounted to 677.36 million yuan, being 19 times that of the same period in the previous year.

Some 70 percent of the products imported by Taiwan Province from the mainland were raw materials from plants. The second largest item was mineral raw materials, and the rest were chemical industrial and textile raw materials. Tea, raw leather, and silk were imported by Taiwan Province for the first time last year. Products imported into the mainland from Taiwan Province were spinning, cotton yarn, artificial fibers, cloths and other textile products, and next in line were television parts and components and other electrical appliances. There were also polyethylene and some items which were imported for the first time last year, such as animal fodder and dyestuffs.

Consumer goods produced in Taiwan, such as television sets, electric fans, and garments are being sold in Beijing, Tianjin, Shanghai, Fuzhou, Guangzhou, and other cities.

9411  
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## LABOR AND WAGES

### INCREASED JOB OPPORTUNITIES FOR YOUTHS IN HEILONGJIANG

Harbin HEILONGJIANG RIBAO in Chinese 25 Jan 81 p 1

[Article: "More Than 480,000 Youths Were Given Jobs in the Province Last Year"]

[Text] The creation of job opportunities in Heilongjiang Province was a great success in 1980, with another 489,000, or 63 percent of the unemployed youths, given jobs. In Qitaihe, Fujin, Hulin, Lindian, Tonghe, and another 10 municipalities and counties, most of the youths who had been awaiting jobs for years are now employed.

After the national conference on the employment problem in 1980, and guided by the Party Central Committee's decision on "a combination of recommendations by the labor departments, voluntary organizations, and individual efforts in solving the employment problem," various localities have further emancipated their thinking and have provided more active leadership over this work. Many enterprises, establishments, and neighborhoods are actively cooperating with the collectively owned enterprises and cooperatives in helping individual youths look for jobs. The use of state-run enterprises, collectively and privately owned units, and other avenues has not only increased job opportunities but also promoted production and enlivened the market.

The state-run enterprises have played an important role in helping establish collectively owned enterprises for providing jobs to these youths. In 1980, 8,197 daily life service units with independent accounting and responsibility for their own profits and losses in collective production were formed in the province, and 164,183 youths, or 33.7 percent of the total number of youths who have been given jobs in the province, were employed in these units. In many localities, several units have combined to form integrated enterprises by breaking through the barriers between different departments, trades and regions, and giving play to the strong-points of each unit. Some of them have contributed money and others contributed materials in the common effort to accommodate the unemployed youths. People have also contributed to collective funds to be used for expanding productive capacity and for forming cooperatives for the same purpose. All these are new experiences.

While all these activities were going on in the cities, farms and production teams for intellectual youths were formed in addition to integrated agricultural, industrial, and commercial enterprises. In Hejiang Prefecture, 137 farms and production teams for intellectual youths were set up in 1979, and another 67 new ones were

formed in 1980. On this basis, 38 integrated agricultural, industrial, and commercial enterprises were set up, and more than 6,000 youths were given jobs in them.

Vocational training is now receiving attention in many localities, and secondary vocational schools and vocational study classes have been either reactivated or started. At present there are now 813 cultural and technical training classes of various types, with more than 39,000 unemployed youths in attendance. The method of training before employment is of great significance in alleviating the present employment contradiction, in improving the quality of the reserve labor force, and in reforming the system of recruitment.

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